

**ANNUAL STATEMENT**

**OF THE**

**Preferred Health Partnership of Tennessee, Inc.**

**of**

**Knoxville**

**in the state of**

**Tennessee**

**TO THE**

**Insurance Department**

**OF THE STATE OF**

**Tennessee**

**FOR THE YEAR ENDED**  
**DECEMBER 31, 2002**

ANNUAL STATEMENT

For the Year Ending December 31, 2002

OF THE CONDITION AND AFFAIRS OF THE

Preferred Health Partnership of Tennessee, Inc.

NAIC Group Code	1253 (Current Period)	1253 (Prior Period)	NAIC Company Code	95749	Employer's ID Number	62-1546662
Organized under the Laws of	Tennessee		State of Domicile or Port of Entry	Tennessee		
Country of Domicile	United States of America					
Licensed as business type:	Life, Accident & Health[ ] Dental Service Corporation[ ] Other[ ]		Property/Casualty[ ] Vision Service Corporation[ ] Is HMO Federally Qualified? Yes[X] No[ ]		Hospital, Medical & Dental Service or Indemnity[ ] Health Maintenance Organization[X]	
Date Incorporated or Organized	01/01/1994		Date Commenced Business	01/01/1994		
Statutory Home Office	1420 Centerpoint Blvd. (Street and Number)		Knoxville, TN 37932 (City, or Town, State and Zip Code)			
Main Administrative Office	1420 Centerpoint Blvd. (Street and Number)		Knoxville, TN 37932 (City or Town, State and Zip Code)			
Mail Address	1420 Centerpoint Blvd. (Street and Number or P.O. Box)		(865)670-7282 (Area Code) (Telephone Number)			
Primary Location of Books and Records	1420 Centerpoint Blvd. (Street and Number)		Knoxville, TN 37932 (City, or Town, State and Zip Code)			
Internet Website Address			(865)670-7282 (Area Code) (Telephone Number)			
Statement Contact	Melissa R Anderson (Name) manders1@covhlth.com (E-Mail Address)		(865)670-7282 (Area Code)(Telephone Number)(Extension) (865)470-7461 (Fax Number)			
Policyowner Relations Contact	1420 Centerpoint Blvd. (Street and Number)		Knoxville, TN 37932 (City, or Town, State and Zip Code)			
			(865)470-7470 (Area Code) (Telephone Number)(Extension)			

OFFICERS

President	Lance K. Hunsinger
Chief Financial Officer	Lance K. Hunsinger
Secretary	Jeffery S. Collake

VICE PRESIDENTS

DIRECTORS OR TRUSTEES

Stuart B. Baker MD	Thomas Rowe Bell
Kenneth Truman Creed	Daniel J. David MD
Michael McKay Dudley	Marvin H. Eichorn
Randolph Murphree Lowry MD	Kenneth Frederick Luckman MD
Cletus Joseph McMahon Jr. MD	Michael Earl Mitchell MD
David A. Nowiski	Francis H. Olmstead Jr.
Anthony L. Spezia	

State of	Tennessee
County of	Knox ss

The officers of this reporting entity, being duly sworn, each depose and say that they are the described officers of the said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manuals except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively.

(Signature) Lance K. Hunsinger (Printed Name) President	(Signature) Lance K. Hunsinger (Printed Name) Chief Financial Officer	(Signature) Jeffery S. Collake (Printed Name) Secretary
a. Is this an original filing?		Yes[ ] No[X]
b. If no,		2
1. State the amendment number		05/23/2003
2. Date filed		34
3. Number of pages attached		

Subscribed and sworn to before me this  
day of , 2003

(Notary Public Signature)

ASSETS

		Current Year			Prior Year
		1	2	3	4
		Assets	Nonadmitted Assets	Net Admitted Assets	Net Admitted Assets
1.	Bonds .....	70,496,839		70,496,839	75,918,920
2.	Stocks: .....				
2.1	Preferred stocks .....				
2.2	Common stocks .....				
3.	Mortgage loans on real estate: .....				
3.1	First liens .....				
3.2	Other than first liens .....				
4.	Real estate (Schedule A): .....				
4.1	Properties occupied by the company (less \$..... encumbrances) .....			(a).....	
4.2	Properties held for the production of income (less \$..... encumbrances) .....				
4.3	Properties held for sale (less \$..... encumbrances) .....				
5.	Cash (\$.....3,776,349, Schedule E - Part 1) and short-term investments (\$....., Schedule DA - Part 2) .....	3,776,349		3,776,349	3,945,594
6.	Other long-term invested assets .....				
7.	Receivable for securities .....				
8.	Aggregate write-ins for invested assets .....				
9.	Subtotal, cash and invested assets (Lines 1 to 8) .....	74,273,188		74,273,188	79,864,514
10.	Accident and health premiums due and unpaid .....	2,518,183		2,518,183	939,845
11.	Health care receivables .....				
12.	Amounts recoverable from reinsurers .....				
13.	Net adjustment in assets and liabilities due to foreign exchange rates .....				
14.	Investment income due and accrued .....	1,157,946		1,157,946	1,308,107
15.	Amounts due from parent, subsidiaries and affiliates .....	78,816	78,816		
16.	Amounts receivable relating to uninsured accident and health plans .....				
17.	Furniture and equipment .....				
18.	Amounts due from agents .....				
19.	Federal and foreign income tax recoverable and interest thereon (including \$..... net deferred tax asset) .....				
20.	Electronic data processing equipment and software .....				
21.	Other nonadmitted assets .....				
22.	Aggregate write-ins for other than invested assets .....	2,370,412		2,370,412	8,074,300
23.	Total assets (Lines 9 plus 10 through 22) .....	80,398,545	78,816	80,319,729	90,186,766
DETAILS OF WRITE-INS					
0801	.....				
0802	.....				
0803	.....				
0898.	Summary of remaining write-ins for Line 8 from overflow page .....				
0899.	TOTALS (Lines 0801 through 0803 plus 0898) (Line 8 above) .....				
2201.	A/R Risk Share .....	2,370,412		2,370,412	8,074,300
2202.	0 .....				
2203	.....				
2298.	Summary of remaining write-ins for Line 22 from overflow page .....				
2299.	TOTALS (Lines 2201 through 2203 plus 2298) (Line 22 above) .....	2,370,412		2,370,412	8,074,300

(a) \$..... health care delivery assets included in Line 4.1, Column 3.

LIABILITIES, CAPITAL AND SURPLUS

		Current Year			Prior Year
		1 Covered	2 Uncovered	3 Total	4 Total
1.	Claims unpaid (less \$..... reinsurance ceded) .....	3,116,777		3,116,777	30,879,480
2.	Accrued medical incentive pool and bonus payments .....				
3.	Unpaid claims adjustment expenses .....				
4.	Aggregate policy reserves .....	10,826,641		10,826,641	5,279,384
5.	Aggregate claim reserves .....				
6.	Premiums received in advance .....				
7.	General expenses due or accrued .....	13,746,682		13,746,682	11,153,287
8.	Federal and foreign income tax payable and interest thereon (including \$..... on realized capital gains (losses)) (including \$..... net deferred tax liability) .....				
9.	Amounts withheld or retained for account of others .....				
10.	Borrowed money (including \$..... current) and interest thereon \$..... (including \$..... current) .....				
11.	Amounts due to parent, subsidiaries and affiliates .....	20,617,000		20,617,000	13,837,311
12.	Payable to securities .....				
13.	Funds held under reinsurance treaties with (\$..... authorized reinsurers and \$..... unauthorized reinsurers .....				
14.	Reinsurance in unauthorized companies .....				
15.	Net adjustments in assets and liabilities due to foreign exchange rates .....				
16.	Liability for amounts held under uninsured accident and health plans .....				
17.	Aggregate write-ins for other liabilities (including \$..... current) .....	14,082,990		14,082,990	10,754,756
18.	Total liabilities (Lines 1 to 17) .....	62,390,090		62,390,090	71,904,218
19.	Common capital stock .....	X X X	X X X	1,000	1,000
20.	Preferred capital stock .....	X X X	X X X		
21.	Gross paid in and contributed surplus .....	X X X	X X X	61,379,848	61,379,848
22.	Surplus notes .....	X X X	X X X		
23.	Aggregate write-ins for other than special surplus funds .....	X X X	X X X		
24.	Unassigned funds (surplus) .....	X X X	X X X	(43,451,208)	(43,098,300)
25.	Less treasury stock, at cost:	X X X	X X X		
25.1	..... shares common (value included in Line 19 \$.....)	X X X	X X X		
25.2	..... shares preferred (value included in Line 20 \$.....)	X X X	X X X		
26.	Total capital and surplus (Lines 19 to 25) .....	X X X	X X X	17,929,640	18,282,548
27.	Total liabilities, capital and surplus (Lines 18 and 26) .....	X X X	X X X	80,319,730	90,186,766
DETAILS OF WRITE-INS					
1701.	Accrued Run-Out Costs .....	14,082,990		14,082,990	7,690,756
1702.	Grier Decree Accrual .....				
1703.	Reserve for Transplants .....				3,064,000
1798.	Summary of remaining write-ins for Line 17 from overflow page .....				
1799.	TOTALS (Lines 1701 through 1703 plus 1798) (Line 17 above) .....	14,082,990		14,082,990	10,754,756
2301	.....	X X X	X X X		
2302	.....	X X X	X X X		
2303	.....	X X X	X X X		
2398.	Summary of remaining write-ins for Line 23 from overflow page .....	X X X	X X X		
2399.	TOTALS (Lines 2301 through 2303 plus 2398) (Line 23 above) .....	X X X	X X X		

STATEMENT OF REVENUE AND EXPENSES

		Current Year		Prior Year
		1 Uncovered	2 Total	3 Total
1.	Member Months .....	X X X .....	1,411,276	1,314,549
2.	Net premium income .....	X X X .....	109,964,306	204,781,359
3.	Change in unearned premium reserves and reserve for rate credits .....	X X X .....		
4.	Fee-for-service (net of \$..... medical expenses) .....	X X X .....		
5.	Risk revenue .....	X X X .....		
6.	Aggregate Write-Ins for Other health care related revenues .....	X X X .....	13,508	1,825,693
7.	Total revenues (Lines 2 to 6) .....	X X X .....	109,977,814	206,607,052
Medical and Hospital:				
8.	Hospital/medical benefits .....		51,534,383	121,933,779
9.	Other Professional Services .....		13,314,724	18,776,205
10.	Outside Referrals .....			
11.	Emergency room and out-of-area .....		4,721,849	7,536,702
12.	Prescription drugs .....		19,195,524	46,600,182
13.	Aggregate write-ins for other medical and hospital .....		(4,143,708)	(6,629,858)
14.	Incentive pool and withhold adjustments .....			
15.	Subtotal (Lines 8 to 14) .....		84,622,772	188,217,010
LESS:				
16.	Net reinsurance recoveries .....			
17.	Total medical and hospital (Lines 15 minus 16) .....		84,622,772	188,217,010
18.	Claims adjustment expenses .....		5,273,180	5,335,642
19.	General administrative expenses .....		25,094,419	19,930,506
20.	Increase in reserves for accident and health contracts .....			
21.	Total underwriting deductions (Lines 17 through 20) .....		114,990,371	213,483,158
22.	Net underwriting gain or (loss) (Lines 7 minus 21) .....	X X X .....	(5,012,557)	(6,876,106)
23.	Net investment income earned .....		3,749,260	4,258,725
24.	Net realized capital gains or (losses) .....		910,387	543,393
25.	Net investment gains or (losses) (Lines 23 plus 24) .....		4,659,647	4,802,118
26.	Net gain or (Loss) from agents' or premium balances charged off [(amount recovered \$.....) (amount charged off \$.....)] .....			
27.	Aggregate write-ins for other income or expenses .....			
28.	Net income or (loss) before federal income taxes (Lines 22 plus 25 plus 26 plus 27) .....		(352,910)	(2,073,988)
29.	Federal and foreign income taxes incurred .....	X X X .....		
30.	Net income (loss) (Lines 28 minus 29) .....	X X X .....	(352,910)	(2,073,988)
DETAILS OF WRITE-INS				
0601.	Other Revenue .....	X X X .....	13,508	1,825,693
0602.	.....	X X X .....		
0603.	.....	X X X .....		
0698.	Summary of remaining write-ins for Line 6 from overflow page .....	X X X .....		
0699.	TOTALS (Lines 0601 through 0603 plus 0698) (Line 6 above) .....	X X X .....	13,508	1,825,693
1301.	Recoveries .....		(754,116)	(500,219)
1302.	Risk Share .....		(3,389,592)	(6,129,639)
1303.	.....			
1398.	Summary of remaining write-ins for Line 13 from overflow page .....			
1399.	TOTALS (Lines 1301 through 1303 plus 1398) (Line 13 above) .....		(4,143,708)	(6,629,858)
2701.	.....			
2702.	.....			
2703.	.....			
2798.	Summary of remaining write-ins for Line 27 from overflow page .....			
2799.	TOTALS (Lines 2701 through 2703 plus 2798) (Line 27 above) .....			

STATEMENT OF REVENUE AND EXPENSES (Continued)

		1	2
		Current Year	Prior Year
CAPITAL & SURPLUS ACCOUNT			
31.	Capital and surplus prior reporting year .....	18,282,548	12,296,282
GAINS AND LOSSES TO CAPITAL & SURPLUS			
32.	Net income or (loss) from Line 30 .....	(352,910)	(2,073,988)
33.	Change in valuation basis of aggregate policy and claim reserves .....		
34.	Net unrealized capital gains and losses .....		
35.	Change in net unrealized foreign exchange capital gain or (loss) .....		
36.	Change in net deferred income tax .....		
37.	Change in nonadmitted assets .....		60,254
38.	Change in unauthorized reinsurance .....		
39.	Change in treasury stock .....		
40.	Change in surplus notes .....		
41.	Cumulative effect of changes in accounting principles .....		
42.	Capital Changes:		
42.1	Paid in .....		
42.2	Transferred from surplus (Stock Dividend) .....		
42.3	Transferred to surplus .....		
43.	Surplus adjustments:		
43.1	Paid in .....		8,000,000
43.2	Transferred to capital (Stock Dividend) .....		
43.3	Transferred from capital .....		
44.	Dividends to stockholders .....		
45.	Aggregate write-ins for gains or (losses) in surplus .....		(1)
46.	Net change in capital and surplus (Lines 32 to 45) .....	(352,910)	5,986,265
47.	Capital and surplus end of reporting year (Line 31 plus 46) .....	17,929,638	18,282,547
DETAILS OF WRITE-INS			
4501.	Miscellaneous .....		(1)
4502	.....		
4503	.....		
4598.	Summary of remaining write-ins for Line 45 from overflow page .....		
4599.	TOTALS (Lines 4501 through 4503 plus 4598) (Line 45 above) .....		(1)

CASH FLOW

		1	2
		Current Year	Prior Year
Cash from Operations			
1.	Premiums and revenues collected net of reinsurance .....	114,089,856	198,455,873
2.	Claims and claims adjustment expenses .....	108,783,164	192,852,926
3.	General administrative expenses paid .....	15,721,336	9,927,329
4.	Other underwriting income (expenses) .....	13,508	1,825,693
5.	Cash from underwriting (Line 1 minus Line 2 minus Line 3 plus Line 4) .....	(10,401,136)	(2,498,689)
6.	Net investment income .....	4,212,347	3,877,219
7.	Other income (expenses) .....		
8.	Federal and foreign income taxes (paid) recovered .....		
9.	Net cash from operations (Line 5 to 8) .....	(6,188,789)	1,378,530
Cash from Investments			
10.	Proceeds from investments sold, matured or repaid:		
10.1	Bonds .....	37,857,526	43,925,058
10.2	Stocks .....		
10.3	Mortgage loans .....		
10.4	Real estate .....		
10.5	Other invested assets .....		
10.6	Net gains or (losses) on cash and short-term investments .....		
10.7	Miscellaneous proceeds .....		
10.8	Total investment proceeds (Lines 10.1 to 10.7) .....	37,857,526	43,925,058
11.	Cost of investments acquired (long-term only):		
11.1	Bonds .....	31,837,982	67,277,586
11.2	Stocks .....		
11.3	Mortgage loans .....		
11.4	Real estate .....		
11.5	Other invested assets .....		
11.6	Miscellaneous applications .....		
11.7	Total investments acquired (Lines 11.1 to 11.6) .....	31,837,982	67,277,586
12.	Net cash from investments (Line 10.8 minus Line 11.7) .....	6,019,544	(23,352,528)
Cash from Financing and Miscellaneous Sources			
13.	Cash provided:		
13.1	Surplus notes, capital and surplus paid in .....		8,000,000
13.2	Net transfers from affiliates .....		
13.3	Borrowed funds received .....		
13.4	Other cash provided .....		
13.5	Total (Lines 13.1 to 13.4) .....		8,000,000
14.	Cash applied:		
14.1	Dividends to stockholder paid .....		
14.2	Net transfers to affiliates .....		
14.3	Borrowed funds repaid .....		
14.4	Other applications .....		
14.5	Total (Lines 14.1 to 14.4) .....		
15.	Net cash from financing and miscellaneous sources (Line 13.5 minus Line 14.5) .....		8,000,000
RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS			
16.	Net change in cash and short-term investments (Line 9 plus Line 12 plus Line 15) .....	(169,245)	(13,973,998)
17.	Cash and short-term investments:		
17.1	Beginning of year .....	3,945,594	17,919,592
17.2	End of year (Line 16 plus Line 17.1) .....	3,776,349	3,945,594

ANALYSIS OF OPERATIONS BY LINES OF BUSINESS

(Gain and Loss Exhibit)

		1	2	3	4	5	6	7	8	9	10	11	12	13
		Total	Comprehensive (Hospital & Medical)	Medical Only	Medicare Supplement	Dental Only	Vision Only	Federal Employee Health Benefit Plan	Title XVIII- Medicare	Title XIX- Medicaid	Stop Loss	Disability Income	Long- term Care	Other
1.	Net premium income .....	109,964,306								109,964,306				
2.	Change in unearned premium reserves and reserve for rate credit .....													
3.	Fee-for-service (net of \$..... medical expenses) .....													
4.	Risk revenue .....													
5.	Aggregate write-ins for other health care related revenues .....	13,508								13,508				
6.	Total revenues (Lines 1 to 5) .....	109,977,814								109,977,814				
7.	Medical/hospital benefits .....	51,534,383								51,534,383				
8.	Other professional services .....	13,314,724								13,314,724				
9.	Outside referrals .....													
10.	Emergency room and out-of-area .....	4,721,849								4,721,849				
11.	Prescription drugs .....	19,195,524								19,195,524				
12.	Aggregate write-ins for other medical and hospital .....	(4,143,708)								(4,143,708)				
13.	Incentive pool and withhold adjustments .....													
14.	Subtotal (Lines 7 to 13) .....	84,622,772								84,622,772				
15.	Net reinsurance recoveries .....													
16.	Total medical and hospital (Lines 14 minus 15) .....	84,622,772								84,622,772				
17.	Claims adjustment expenses .....	5,273,180								5,273,180				
18.	General administrative expenses .....	25,094,419								25,094,419				
19.	Increase in reserves for accident and health contracts .....													
20.	Total underwriting deductions (Lines 16 to 19) .....	114,990,371								114,990,371				
21.	Net underwriting gain or (loss) (Line 6 minus Line 20) .....	(5,012,557)								(5,012,557)				
DETAILS OF WRITE-INS														
0501.	Other Revenue .....	13,508								13,508				
0502	.....													
0503	.....													
0598.	Summary of remaining write-ins for Line 5 from overflow page .....													
0599.	TOTAL (Lines 0501 through 0503 plus 0598) (Line 5 above) .....	13,508								13,508				
1201.	Recoveries .....	(754,116)								(754,116)				
1202.	Risk Share .....	(3,389,592)								(3,389,592)				
1203	.....													
1298.	Summary of remaining write-ins for Line 12 from overflow page .....													
1299.	TOTAL (Lines 1201 through 1203 plus 1298) (Line 12 above) .....	(4,143,708)								(4,143,708)				



**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 1 - PREMIUMS**

		1	2	3	4
Line of Business		Direct Business	Reinsurance Assumed	Reinsurance Ceded	Net Premium Income (Columns 1 + 2 - 3)
1.	Comprehensive (medical and hospital) .....	.....	.....	.....	.....
2.	Medicare Supplement .....	.....	.....	.....	.....
3.	Dental only .....	.....	.....	.....	.....
4.	Vision only .....	.....	.....	.....	.....
5.	Federal Employees Health Benefits Plan Premiums .....	.....	.....	.....	.....
6.	Title XVIII - Medicare .....	.....	.....	.....	.....
7.	Title XIX - Medicaid .....	109,964,306	.....	.....	109,964,306
8.	Other .....	.....	.....	.....	.....
9.	TOTALS .....	109,964,306	.....	.....	109,964,306

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2 - Claims Incurred During the Year

		1	2	3	4	5	6	7	8	9
		Total	Compre- hensive (Medical & Hospital)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan Premium	Title XVIII Medicare	Title XIX Medicaid	Other
1.	Payments during the year:									
	1.1 Direct .....	112,385,474							112,385,474	
	1.2 Reinsurance assumed .....									
	1.3 Reinsurance ceded .....									
	1.4 Net .....	112,385,474							112,385,474	
2.	Paid medical incentive pools and bonuses .....									
3.	Claim liability December 31, current year from Part 2A:									
	3.1 Direct .....	3,116,777							3,116,777	
	3.2 Reinsurance assumed .....									
	3.3 Reinsurance ceded .....									
	3.4 Net .....	3,116,777							3,116,777	
4.	Claim reserve December 31, current year from Part 2D:									
	4.1 Direct .....									
	4.2 Reinsurance assumed .....									
	4.3 Reinsurance ceded .....									
	4.4 Net .....									
5.	Accrued medical incentive pools and bonuses, current year .....									
6.	Amounts recoverable from reinsurers December 31, current year .....									
7.	Claim liability December 31, prior year from Part 2A:									
	7.1 Direct .....	30,879,480							30,879,480	
	7.2 Reinsurance assumed .....									
	7.3 Reinsurance ceded .....									
	7.4 Net .....	30,879,480							30,879,480	
8.	Claim reserve December 31, prior year from Part 2D:									
	8.1 Direct .....									
	8.2 Reinsurance assumed .....									
	8.3 Reinsurance ceded .....									
	8.4 Net .....									
9.	Accrued medical incentive pools and bonuses, prior year .....									
10.	Amounts recoverable from reinsurers December 31, prior year .....									
11.	Incurred benefits:									
	11.1 Direct .....	84,622,771							84,622,771	
	11.2 Reinsurance assumed .....									
	11.3 Reinsurance ceded .....									
	11.4 Net .....	84,622,771							84,622,771	
12.	Incurred medical incentive pools and bonuses .....									

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2A - Claims Liability End of Current Year**

		1	2	3	4	5	6	7	8	9
		Total	Compre- hensive (Medical & Hospital)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan Premium	Title XVIII Medicare	Title XIX Medicaid	Other
1.	Reported in Process of Adjustment:									
	1.1 Direct .....	417,326							417,326	
	1.2 Reinsurance assumed .....									
	1.3 Reinsurance ceded .....									
	1.4 Net .....	417,326							417,326	
2.	Incurred but Unreported:									
	2.1 Direct .....	2,699,451							2,699,451	
	2.2 Reinsurance assumed .....									
	2.3 Reinsurance ceded .....									
	2.4 Net .....	2,699,451							2,699,451	
3.	Amounts Withheld from Paid Claims and Capitations:									
	3.1 Direct .....									
	3.2 Reinsurance assumed .....									
	3.3 Reinsurance ceded .....									
	3.4 Net .....									
4.	TOTALS									
	4.1 Direct .....	3,116,777							3,116,777	
	4.2 Reinsurance assumed .....									
	4.3 Reinsurance ceded .....									
	4.4 Net .....	3,116,777							3,116,777	

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2B - ANALYSIS OF CLAIMS UNPAID-PRIOR YEAR-NET OF REINSURANCE**

		Claims Paid During the Year		Claim Reserve and Claim Liability December 31 of Current Year		5  Claims Incurred in Prior Years (Columns 1 + 3)	6  Estimated Claim Reserve and Claim Liability December 31 of Prior Year
		1 On Claims Incurred Prior to January 1 of Current Year	2 On Claims Incurred Durring the Year	3 On Claims Unpaid December 31 of Prior Year	4 On Claims Incurred During the Year		
	Line of Business						
1.	Comprehensive (medical and hospital) .....	.....	.....	.....	.....	.....	.....
2.	Medicare Supplement .....	.....	.....	.....	.....	.....	.....
3.	Dental only .....	.....	.....	.....	.....	.....	.....
4.	Vision only .....	.....	.....	.....	.....	.....	.....
5.	Federal Employees Health Benefits Plan Premiums .....	.....	.....	.....	.....	.....	.....
6.	Title XVIII - Medicare .....	.....	.....	.....	.....	.....	.....
7.	Title XIX - Medicaid .....	17,842,461	94,543,013	923,002	2,193,775	18,765,463	30,879,480
8.	Other .....	.....	.....	.....	.....	.....	.....
9.	Subtotal .....	17,842,461	94,543,013	923,002	2,193,775	18,765,463	30,879,480
10.	Medical incentive pools, accrual and disbursements .....	.....	.....	.....	.....	.....	.....
11.	TOTALS .....	17,842,461	94,543,013	923,002	2,193,775	18,765,463	30,879,480

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS (000 Omitted)**

**Grand Total**  
**Section A - Paid Claims**

Year in Which Losses Were Incurred		Net Amounts Paid				
		1 1998	2 1999	3 2000	4 2001	5 2002
1.	Prior .....	21,584				
2.	1998 .....	114,812	15,711			
3.	1999 .....	X X X	121,357	14,912		
4.	2000 .....	X X X	X X X	110,927	17,633	
5.	2001 .....	X X X	X X X	X X X	167,667	17,842
6.	2002 .....	X X X	X X X	X X X	X X X	94,543

**Section B - Incurred Claims**

Year in Which Losses Were Incurred		Sum of Net Amount Paid and Claim Liability and Reserve Outstanding at End of Year				
		1 1998	2 1999	3 2000	4 2001	5 2002
1.	Prior .....	22,231				
2.	1998 .....	144,759	16,865			
3.	1999 .....	X X X	130,960	20,192		
4.	2000 .....	X X X	X X X	133,609	18,208	
5.	2001 .....	X X X	X X X	X X X	197,972	18,765
6.	2002 .....	X X X	X X X	X X X	X X X	96,737

**Section C - Incurred Year Claims and Claims Adjustment Expense Ratio**

Years in Which Premiums were Earned and Claims were Incurred		1  Premiums Earned	2  Claims Payments	3  Claim Adjustment Expense Payments	4  (Col. 3/2) Percent	5  Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6  (Col. 5/1) Percent	7  Claims Unpaid	8  Unpaid Claims Adjustment Expenses	9  Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10  (Col. 9/1) Percent
1.	Prior to 1998 .....	X X X			X X X		X X X				X X X
2.	1998 .....	131,740	130,522			130,522	99.075			130,522	99.075
3.	1999 .....	128,907	136,269			136,269	105.711			136,269	105.711
4.	2000 .....	155,606	128,559			128,559	82.618			128,559	82.618
5.	2001 .....	204,781	185,510	5,336	2.876	190,846	93.195	923		191,769	93.646
6.	2002 .....	109,964	94,543	5,273	5.577	99,816	90.772	2,194		102,010	92.767
7.	TOTAL (Lines 1 through 6) .....	X X X	675,403	10,609	X X X	686,012	X X X	3,117		689,129	X X X
8.	TOTAL (Lines 2 through 6) .....	730,998	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X

12 Total

12	Underwriting Invest Exh Pt 2C Sn A - Paid Claims - Hospital and Medical. . . .	NONE
12	Underwriting Invest Exh Pt 2C Sn B - Incur. Claims - Hospital and Medical. . . .	NONE
12	Underwriting Invest Exh Pt 2C Sn C - Expns Ratios - Hospital and Medical. . . .	NONE
12	Underwriting Invest Exh Pt 2C Sn A - Paid Claims - Medicare Supplement . . . .	NONE
12	Underwriting Invest Exh Pt 2C Sn B - Incur. Claims - Medicare Supplement . . .	NONE
12	Underwriting Invest Exh Pt 2C Sn C - Expns Ratios - Medicare Supplement . . .	NONE
12	Underwriting Invest Exh Pt 2C Sn A - Paid Claims - Dental Only. . . . .	NONE
12	Underwriting Invest Exh Pt 2C Sn B - Incur. Claims - Dental Only. . . . .	NONE
12	Underwriting Invest Exh Pt 2C Sn C - Expns Ratios - Dental Only. . . . .	NONE
12	Underwriting Invest Exh Pt 2C Sn A - Paid Claims - Vision Only. . . . .	NONE
12	Underwriting Invest Exh Pt 2C Sn B - Incur. Claims - Vision Only. . . . .	NONE
12	Underwriting Invest Exh Pt 2C Sn C - Expns Ratios - Vision Only. . . . .	NONE
12	Underwriting Invest Exh Pt 2C Sn A - Paid Claims - Fed Emp HBPP. . . . .	NONE
12	Underwriting Invest Exh Pt 2C Sn B - Incur. Claims - Fed Emp HBPP. . . . .	NONE
12	Underwriting Invest Exh Pt 2C Sn C - Expns Ratios - Fed Emp HBPP. . . . .	NONE
12	Underwriting Invest Exh Pt 2C Sn A - Paid Claims - Title XVIII-Medicare. . . . .	NONE
12	Underwriting Invest Exh Pt 2C Sn B - Incur. Claims - Title XVIII-Medicare . . . .	NONE
12	Underwriting Invest Exh Pt 2C Sn C - Expns Ratios - Title XVIII-Medicare . . . .	NONE

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS (000 Omitted)

Title XIX - Medicaid

Section A - Paid Claims

Year in Which Losses Were Incurred		Net Amounts Paid				
		1 1998	2 1999	3 2000	4 2001	5 2002
1.	Prior .....	21,584				
2.	1998 .....	114,812	15,711			
3.	1999 .....	X X X	121,357	14,912		
4.	2000 .....	X X X	X X X	110,927	17,633	
5.	2001 .....	X X X	X X X	X X X	167,667	17,842
6.	2002 .....	X X X	X X X	X X X	X X X	94,543

Section B - Incurred Claims

Year in Which Losses Were Incurred		Sum of Net Amount Paid and Claim Liability and Reserve Outstanding at End of Year				
		1 1998	2 1999	3 2000	4 2001	5 2002
1.	Prior .....	22,231				
2.	1998 .....	144,759	16,865			
3.	1999 .....	X X X	130,960	20,192		
4.	2000 .....	X X X	X X X	133,609	18,208	
5.	2001 .....	X X X	X X X	X X X	197,972	18,765
6.	2002 .....	X X X	X X X	X X X	X X X	96,737

Section C - Incurred Year Claims and Claims Adjustment Expense Ratio

Years in Which Premiums were Earned and Claims were Incurred		1	2	3	4	5	6	7	8	9	10
		Premiums Earned	Claims Payments	Claim Adjustment Expense Payments	(Col. 3/2) Percent	Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	(Col. 5/1) Percent	Claims Unpaid	Unpaid Claims Adjustment Expenses	Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	(Col. 9/1) Percent
1.	Prior to 1998 .....	X X X			X X X		X X X				X X X
2.	1998 .....	131,740	130,522			130,522	99.075			130,522	99.075
3.	1999 .....	128,907	136,269			136,269	105.711			136,269	105.711
4.	2000 .....	155,606	128,559			128,559	82.618			128,559	82.618
5.	2001 .....	204,781	185,510	5,336	2.876	190,846	93.195	923		191,769	93.646
6.	2002 .....	109,964	94,543	5,273	5.577	99,816	90.772	2,194		102,010	92.767
7.	TOTAL (Lines 1 through 6) .....	X X X	675,403	10,609	X X X	686,012	X X X	3,117		689,129	X X X
8.	TOTAL (Lines 2 through 6) .....	730,998	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS (000 Omitted)**

**Other**  
**Section A - Paid Claims**

Year in Which Losses Were Incurred		Net Amounts Paid				
		1 1998	2 1999	3 2000	4 2001	5 2002
1.	Prior .....					
2.	1998 .....	<div>NONE</div>				
3.	1999 .....					
4.	2000 .....					
5.	2001 .....					
6.	2002 .....					
		X X X .....	X X X .....	X X X .....	X X X .....	

**Section B - Incurred Claims**

Year in Which Losses Were Incurred		Sum of Net Amount Paid and Claim Liability and Reserve Outstanding at End of Year				
		1 1998	2 1999	3 2000	4 2001	5 2002
1.	Prior .....					
2.	1998 .....	<div>NONE</div>				
3.	1999 .....					
4.	2000 .....					
5.	2001 .....					
6.	2002 .....					
		X X X .....	X X X .....	X X X .....	X X X .....	

**Section C - Incurred Year Claims and Claims Adjustment Expense Ratio**

Years in Which Premiums were Earned and Claims were Incurred		1  Premiums Earned	2  Claims Payments	3  Claim Adjustment Expense Payments	4  (Col. 3/2) Percent	5  Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6  (Col. 5/1) Percent	7  Claims Unpaid	8  Unpaid Claims Adjustment Expenses	9  Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10  (Col. 9/1) Percent
1.	Prior to 1998 .....	X X X .....			X X X .....		X X X .....				X X X .....
2.	1998 .....										
3.	1999 .....				<div>NONE</div>						
4.	2000 .....										
5.	2001 .....										
6.	2002 .....										
7.	TOTAL (Lines 1 through 6) .....	X X X .....			X X X .....		X X X .....				X X X .....
8.	TOTAL (Lines 2 through 6) .....		X X X .....	X X X .....	X X X .....	X X X .....	X X X .....	X X X .....	X X X .....	X X X .....	X X X .....



**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2D - AGGREGATE RESERVE FOR ACCIDENT AND HEALTH CONTRACTS**

		1	2	3	4	5	6	7	8	9
		Total	Compre- hensive (Hospital & Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan	Title XVIII Medicare	Title XIX Medicaid	Other
POLICY RESERVE										
1.	Unearned premium reserves .....									
2.	Additional policy reserves (a) .....	10,826,641							10,826,641	
3.	Reserve for future contingent benefits .....									
4.	Reserve for rate credits or experience rating refunds (including \$.....) for investment income .....									
5.	Aggregate write-ins for other policy reserves .....									
6.	Totals (gross) .....	10,826,641							10,826,641	
7.	Reinsurance ceded .....									
8.	Totals (Net) (Page 3, Line 4) .....	10,826,641							10,826,641	
CLAIM RESERVE										
9.	Present value of amounts not yet due on claims .....									
10.	Reserve for future contingent benefits .....									
11.	Aggregate write-ins for other claim reserves .....									
12.	Totals (gross) .....									
13.	Reinsurance ceded .....									
14.	Totals (Net) (Page 3, Line 5) .....									
DETAILS OF WRITE-INS										
0501	.....									
0502	.....									
0503	.....									
0598.	Summary of remaining write-ins for Line 5 from overflow page .....									
0599.	Totals (Lines 0501 through 0503 plus 0598) (Line 5 above) .....									
1101	.....									
1102	.....									
1103	.....									
1198.	Summary of remaining write-ins for Line 11 from overflow page .....									
1199.	Totals (Lines 1101 through 1103 plus 1198) (Line 11 above) .....									

(a) Includes \$..... premium deficiency reserve.

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 3 - ANALYSIS OF EXPENSES**

	1	2	3	4
	Claim Adjustment Expenses	General Administrative Expenses	Investment Expenses	Total
1. Rent (\$..... for occupancy of own building) .....		443,957		443,957
2. Salaries, wages and other benefits .....	3,743,026	4,487,503		8,230,529
3. Commissions (less \$..... ceded plus \$..... assumed) ...				
4. Legal fees and expenses .....		248,972		248,972
5. Certifications and accreditation fees .....				
6. Auditing, actuarial and other consulting services .....	27,630	1,432,119		1,459,749
7. Traveling expenses .....	26,466	78,692		105,157
8. Marketing and advertising .....		13,005		13,005
9. Postage, express and telephone .....	323,192	377,583		700,775
10. Printing and office supplies .....	39,044	531,940		570,984
11. Occupancy, depreciation and amortization .....				
12. Equipment .....	4,749	41,582		46,331
13. Cost or depreciation of EDP equipment and software .....		994,528		994,528
14. Outsourced services including EDP, claims, and other services .....				
15. Boards, bureaus and association fees .....				
16. Insurance, except on real estate .....		178,586		178,586
17. Collection and bank service charges .....	40,777	3,466		44,244
18. Group service and administration fees .....				
19. Reimbursements by uninsured accident and health plans .....				
20. Reimbursements from fiscal intermediaries .....				
21. Real estate expenses .....				
22. Real estate taxes .....				
23. Taxes, licenses and fees:				
23.1 State and local insurance taxes .....				
23.2 State premium taxes .....		2,293,078		2,293,078
23.3 Regulator authority licenses and fees .....				
23.4 Payroll taxes .....	268,509	300,079		568,588
23.5 Other (excluding federal income and real estate taxes) .....		130,721		130,721
24. Investment expenses not included elsewhere .....			127,924	127,924
25. Aggregate write-ins for expenses .....	799,788	13,538,609		14,338,397
26. Total expenses incurred (Lines 1 to 25) .....	5,273,180	25,094,419	127,924	(a) 30,495,523
27. Add expenses unpaid December 31, prior year .....		24,990,598		24,990,598
28. Less expenses unpaid December 31, current year .....		34,363,682		34,363,682
29. Amounts receivable relating to uninsured accident and health plans, prior year .....				
30. Amounts receivable relating to uninsured accident and health plans, current year .....				
31. Total expenses paid (Lines 26 plus 27 minus 28 minus 29 plus 30) .	5,273,180	15,721,335	127,924	21,122,439
<b>DETAILS OF WRITE-INS</b>				
2501. Property & Franchise Taxes .....				
2502. Dues/Fees/Licenses .....	220,915	120,790		341,705
2503. Computer Supplies .....		11,541		11,541
2598. Summary of remaining write-ins for Line 25 from overflow page .....	578,873	13,406,277		13,985,150
2599. Totals (Lines 2501 through 2503 + 2598)(Line 25 above) .....	799,788	13,538,609		14,338,397

(a) Includes management fees of \$..... to affiliates and \$..... to non-affiliates.

EXHIBIT OF NET INVESTMENT INCOME

		1	2
		Collected During Year	Earned During Year
1.	U.S. Government bonds .....	(a)..... 3,427,950	..... 2,841,505
1.1	Bonds exempt from U.S. tax .....	(a).....	
1.2	Other bonds (unaffiliated) .....	(a)..... 1,043,443	..... 906,131
1.3	Bonds of affiliates .....	(a).....	
2.1	Preferred stocks (unaffiliated) .....	(b).....	
2.11	Preferred stocks of affiliates .....	(b).....	
2.2	Common stocks (unaffiliated) .....		
2.21	Common stocks of affiliates .....		
3.	Mortgage loans .....	(c).....	
4.	Real estate .....	(d).....	
5.	Contract loans .....		
6.	Cash/short-term investments .....	(e)..... 120,664	..... 129,411
7.	Derivative instruments .....	(f).....	
8.	Other invested assets .....		
9.	Aggregate write-ins for investment income .....		
10.	Total gross investment income .....	..... 4,592,057	..... 3,877,047
11.	Investment expenses .....		(g)..... 127,788
12.	Investment taxes, licenses and fees, excluding federal income taxes .....		(g).....
13.	Interest expense .....		(h).....
14.	Depreciation on real estate and other invested assets .....		(i).....
15.	Aggregate write-ins for deductions from investment income .....		
16.	Total deductions (Lines 11 through 15) .....		..... 127,788
17.	Net Investment income (Line 10 minus Line 16) .....		..... 3,749,259

DETAILS OF WRITE-INS		
0901 .....		
0902 .....		
0903 .....		
0998. Summary of remaining write-ins for Line 9 from overflow page .....		
0999. TOTALS (Lines 0901 through 0903 plus 0998) (Line 9, above) .....		
1501 .....		
1502 .....		
1503 .....		
1598. Summary of remaining write-ins for Line 15 from overflow page .....		
1599. TOTALS (Lines 1501 through 1503 plus 1598) (Line 15, above) .....		

- (a) Includes \$.....57,734 accrual of discount less \$.....362,080 amortization of premium and less \$.....260,672 paid for accrued interest on purchases.
- (b) Includes \$..... accrual of discount less \$..... amortization of premium and less \$..... paid for accrued dividends on purchases.
- (c) Includes \$..... accrual of discount less \$..... amortization of premium and less \$..... paid for accrued interest on purchases.
- (d) Includes \$..... for company's occupancy of its own buildings; and excluding \$..... interest on encumbrances.
- (e) Includes \$..... accrual of discount less \$..... amortization of premium and less \$..... paid for accrued interest on purchases.
- (f) Includes \$..... accrual of discount less \$..... amortization of premium.
- (g) Includes \$..... investment expenses and \$..... investment taxes, licenses and fees, excluding federal income taxes, attributable to segregated and Separate Accounts.
- (h) Includes \$..... interest on surplus notes and \$..... interest on capital notes.
- (i) Includes \$..... depreciation on real estate and \$..... depreciation on other invested assets.

EXHIBIT OF CAPITAL GAINS (LOSSES)

		1	2	3	4	5
		Realized Gain (Loss) on Sales or Maturity	Other Realized Adjustments	Increases (Decreases) by Adjustment	Net Gain (Loss) from Change in Difference Between Basis Book/Adjusted Carrying and Admitted Values	Total
1.	U.S. Government bonds .....	..... 665,650				..... 665,650
1.1	Bonds exempt from U.S. tax .....					
1.2	Other bonds (unaffiliated) .....	..... 244,738				..... 244,738
1.3	Bonds of affiliates .....					
2.1	Preferred stocks (unaffiliated) .....					
2.11	Preferred stocks of affiliates .....					
2.2	Common stocks (unaffiliated) .....					
2.21	Common stocks of affiliates .....					
3.	Mortgage loans .....					
4.	Real estate .....					
5.	Contract loans .....					
6.	Cash/short-term investments .....					
7.	Derivative instruments .....					
8.	Other invested assets .....					
9.	Aggregate write-ins for capital gains (losses) .....					
10.	Total capital gains (losses) .....	..... 910,387				..... 910,387

DETAILS OF WRITE-INS					
0901 .....					
0902 .....					
0903 .....					
0998. Summary of remaining write-ins for Line 9 from overflow page .....					
0999. TOTALS (Lines 0901 through 0903 plus 0998) (Line 9, above) .....					

**EXHIBIT 1 - ANALYSIS OF NONADMITTED ASSETS AND RELATED ITEMS**

		1	2	3
		End of Current Year	End of Prior Year	Changes for Year (Increase) or Decrease
1.	Summary of items Page 2, Lines 10 to 13 and 15 to 20, Column 2 .....	78,816	78,816	
2.	Other Nonadmitted Assets:			
	2.1 Bills receivable .....			
	2.2 Leasehold improvements .....			
	2.3 Cash advanced to or in the hands of officers and agents .....			
	2.4 Loans on personal security, endorsed or not .....			
	2.5 Commuted commissions .....			
3.	Total (Lines 2.1 to 2.5) .....			
4.	Aggregate write-ins for other assets .....			
5.	TOTAL (Line 1 plus Line 3 and Line 4) .....	78,816	78,816	
DETAILS OF WRITE-INS				
0401	.....			
0402	.....			
0403	.....			
0498.	Summary of remaining write-ins for Line 4 from overflow page .....			
0499.	TOTALS (Lines 0401 through 0403 plus 0498) (Line 4 above) .....			

EXHIBIT 2 - ENROLLMENT BY PRODUCT TYPE

Source of Enrollment		Total Members at End of					6
		1 Prior Year	2 First Quarter	3 Second Quarter	4 Third Quarter	5 Current Year	Current Year Member Months
1.	Health Maintenance Organizations .....	117,787	113,418	113,900	113,812	131,280	1,411,276
2.	Provider Service Organizations .....						
3.	Preferred Provider Organizations .....						
4.	Point of Service .....						
5.	Indemnity Only .....						
6.	Aggregate write-ins for other lines of business .....						
7.	TOTAL .....	117,787	113,418	113,900	113,812	131,280	1,411,276
DETAILS OF WRITE-INS							
0601	.....						
0602	.....						
0603	.....						
0698.	Summary of remaining write-ins for Line 6 from overflow page .....						
0699.	TOTALS (Lines 0601 through 0603 plus 0698) (Line 6 above) .....						

**EXHIBIT 3 - ACCIDENT AND HEALTH PREMIUMS DUE AND UNPAID**

1 Name of Debtor	2 1 - 30 Days	3 31 - 60 Days	4 61 - 90 Days	5 Over 90 Days	6 Nonadmitted	7 Admitted
0199999 Total individuals .....	.....	.....	.....	.....	.....	.....
<b>Group Subscribers:</b>						
State of Tennessee Withhold .....	.....	.....	.....	2,518,183	.....	2,518,183
0299997 Subtotal - Group Subscribers: .....	.....	.....	.....	2,518,183	.....	2,518,183
0299998 Premium due and unpaid not individually listed .....	.....	.....	.....	.....	.....	.....
0299999 Total group .....	.....	.....	.....	2,518,183	.....	2,518,183
0399999 Premiums due and unpaid from Medicare entities .....	.....	.....	.....	.....	.....	.....
0499999 Premiums due and unpaid from Medicaid entities .....	.....	.....	.....	.....	.....	.....
0599999 Accident and health premiums due and unpaid (Page 2, Line 10) ..	.....	.....	.....	2,518,183	.....	2,518,183

**EXHIBIT 4 - HEALTH CARE RECEIVABLES**

1 Name of Debtor	2 1 - 30 Days	3 31 - 60 Days	4 61 - 90 Days	5 Over 90 Days	6 Nonadmitted	7 Admitted
	NONE					
0599999 Health care receivables .....	.....	.....	.....	.....	.....	.....

**EXHIBIT 5 - CLAIMS PAYABLE (Reported and Unreported)**  
Aging Analysis of Unpaid Claims

1 Account	2 1 - 30 Days	3 31 - 60 Days	4 61 - 90 Days	5 91 - 120 Days	6 Over 120 Days	7 Total
<b>Individually Listed Claims Payable</b>						
PHPT Medical Claims .....					417,326	417,326
0199999 Total - Individually Listed Claims Payable .....					417,326	417,326
0299999 Aggregate Accounts Not Individually Listed - Uncovered .....						
0399999 Aggregate Accounts Not Individually Listed - Covered .....						
0499999 Subtotals .....					417,326	417,326
0599999 Unreported claims and other claim reserves .....						2,699,451
0699999 Total Amounts Withheld .....						
0799999 Total Claims Payable .....						3,116,777
0899999 Accrued Medical Incentive Pool .....						



**EXHIBIT 6 - AMOUNTS DUE FROM PARENT, SUBSIDIARIES AND AFFILIATES**

1 Name of Affiliate	2 1 - 30 Days	3 31 - 60 Days	4 61 - 90 Days	5 Over 90 Days	6 Nonadmitted	Admitted	
						7 Current	8 Non-Current
Individually listed receivables							
Preferred Health Partnership, Inc. - I/C FIT Rec .....				78,816	78,816		
0199999 Total - Individually listed receivables .....				78,816	78,816		
0299999 Receivables not inidividually listed .....							
0399999 Total gross amounts receivable .....				78,816	78,816		

**EXHIBIT 7 - AMOUNTS DUE TO PARENT, SUBSIDIARIES AND AFFILIATES**

1 Affiliate	2 Description	3 Amount	4 Current	5 Non-Current
<b>Individually listed payables</b>				
PHP Companies, Inc. ....	Inter-Company Payables .....	20,735,248	(6,389,033)	27,124,281
Preferred Health Partnership, Inc. ....	Inter-Company Payables .....	42,352		42,352
PHP Companies, Inc. ....	I/C - FIT Payable .....	(160,600)		(160,600)
0199999 Total - Individually listed payables .....	X X X .....	20,617,000	(6,389,033)	27,006,033
0299999 Payables not individually listed .....	X X X .....			
0399999 Total gross payables .....	X X X .....	20,617,000	(6,389,033)	27,006,033

**EXHIBIT 8 - PART 1 - SUMMARY OF TRANSACTIONS WITH PROVIDERS**

		1	2	3	4	5	6
Payment Method		Direct Medical Expense Payment	Column 1 as a % of Total	Total Members Covered	Column 3 as a % of Total	Column 1 Expenses Paid to Affiliated Providers	Column 1 Expenses Paid to Non-Affiliated Providers
<b>Capitation Payments:</b>							
1.	Medical groups .....	167,013	0.149				167,013
2.	Intermediaries .....	200,686	0.179				200,686
3.	All other providers .....	1,598,913	1.423	1,411,276	100.000		1,598,913
4.	Total capitation payments .....	1,966,612	1.750	1,411,276	100.000		1,966,612
<b>Other Payments:</b>							
5.	Fee-for-service .....	110,418,862	98.250	X X X	X X X	23,961,642	86,457,220
6.	Contractual fee payments .....			X X X	X X X		
7.	Bonus/withhold arrangements - fee-for-service .....			X X X	X X X		
8.	Bonus/withhold arrangements - contractual fee payments .....			X X X	X X X		
9.	Non-contingent salaries .....			X X X	X X X		
10.	Aggregate cost arrangements .....			X X X	X X X		
11.	All other payments .....			X X X	X X X		
12.	Total other payments .....	110,418,862	98.250	X X X	X X X	23,961,642	86,457,220
13.	Total (Line 4 plus Line 12) .....	112,385,474	100.000	X X X	X X X	23,961,642	88,423,832

**EXHIBIT 8 - PART 2 - SUMMARY OF TRANSACTIONS WITH INTERMEDIARIES**

1	2	3	4	5	6
NAIC Code	Name of Intermediary	Capitation Paid	Average Monthly Capitation	Intermediary's Total Adjusted Capital	Intermediary's Authorized Control Level RBC
95352 .....	Doral Dental Plan Of WI Inc .....	200,686			
9999999 .....		200,686	X X X	X X X	X X X

**EXHIBIT 9 - FURNITURE, EQUIPMENT AND SUPPLIES OWNED**

		1	2	3	4	5	6
Description		Cost	Improvements	Accumulated Depreciation	Book Value Less Encumbrances	Assets Not Admitted	Net Admitted Assets
1.	Administrative furniture and equipment .....						
2.	Medical furniture, equipment and fixtures .....	N O N E					
3.	Pharmaceuticals and surgical supplies .....						
4.	Durable medical equipment .....						
5.	Other property and equipment .....						
6.	Total .....						

# Notes to Financial Statement

1.

Summary of Significant Accounting Policies

A.

Accounting Practices

The financial statements of Preferred Health Partnership of Tennessee, Inc. are presented on the basis of accounting practices prescribed or permitted by the NAIC *Accounting Practices and Procedures* manual and the State of Tennessee Department of Commerce and Insurance.

B.

Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements in conformity with the Statutory Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

C.

Accounting Policy

The plan does not receive premiums from the State; the plan does receive a monthly capitation check to pay for the claims and administrative expenses of the company. This capitation revenue is recognized as income in the period it is received. Expenses incurred in connection with acquiring new insurance business are charged to operations as incurred.

In addition, the company uses the following accounting policies:

(1)

Short-term investments are stated at amortized cost.

(2)

Bonds are stated at amortized cost using the straight-line method.

(3)

Common Stock is stated at par value.

(4)

Anticipated investment income is not included in premium deficiency calculations.

(5)

Liabilities for losses and loss/claim adjustment expenses include an amount determined based on past experience for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods of making such estimates and for establishing the resulting liability are reviewed on a monthly basis and any adjustments are reflected in the period determined.
2.

Accounting Changes and Corrections of Errors

A.

No errors or changes in accounting principles have occurred.

B.

The initial implementation of Codification did not change the company’s financial statement basis.
3.

Business Combinations and Goodwill

Not applicable.
4.

Discontinued Operations

Not applicable.
5.

Investments

Not applicable.
6.

Joint Ventures, Partnerships, and Limited Liability Companies

Not applicable.
7.

Investment Income

All investment income due and accrued was admitted.
8.

Derivative Instruments

Not applicable.
9.

Income Taxes

A.

Not applicable

B.

Not applicable

C.

Not applicable

D.

Not applicable

Notes to Financial Statement

- E. Not applicable
- F. The Plan’s federal income tax return is consolidated with the following entities:  
  
PHP Companies, Inc.; Preferred Health Partnership, Inc.; Cariten Health Plan, Inc.; and Cariten Insurance Company.  
  
Tax payments and the recoupment (in the event of future losses) of taxes paid pursuant to the tax allocation agreement are computed on a separate company basis as determined in accordance with the tax allocation agreement.

10. Information Concerning Parent, Subsidiaries, and Affiliates

- A. The Plan is a wholly owned subsidiary of PHP Companies, Inc., a holding company domiciled in the State of Tennessee. PHP Companies, Inc. is a wholly owned subsidiary of Covenant Health, a non-profit organization domiciled in the State of Tennessee. The holding company group consists of the following companies: Preferred Health Partnership of Tennessee, Inc.; Preferred Health Partnership, Inc.; Cariten Insurance Company; and Cariten Health Plan, Inc.
- B. The Plan periodically transfers cash to the parent, PHP Companies, Inc.; to reimburse for cost allocations and Plan expenses recorded on the Plan’s behalf by the parent. The following amounts were transferred to the parent during 2002: (1) \$4,000,000 on 11/12/2002 (2) \$500,000 on 11/25/2002 (3) \$1,000,000 on 12/13/2002 (4) \$1,000,000 on 12/20/2002 and (5) \$4,000,000 on 12/26/2002
- C. The Plan Transferred \$10,500,000 to PHP Companies. Cost allocations received from the parent company totaled \$15,076,925. Plan expenses paid by the parent company on behalf of the plan totaled \$2,202,796.
- D. As of December 31, 2002, the Plan has a payable to the parent of \$20,617,000.
- E. Not applicable
- F. The parent company of the Plan accumulates operating costs and allocates these expenses monthly to the operating entities listed above. Allocations are based proportionately on the membership counts of the companies listed above with government program memberships doubled, due to higher administration needs.
- G-J. Not applicable.

11. Debt

Not applicable

12. Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans

Not applicable

13. Capital and Surplus, Shareholders’ Dividend Restrictions and Quasi-Reorganizations

- (1) The Plan has 1,000 shares of \$1 par common stock authorized and outstanding. All stock is owned by the parent company, PHP Companies, Inc.
- (2) Not applicable.
- (3) No dividends are paid.
- (4) Not applicable
- (5) No restrictions are placed on surplus.
- (6) Not applicable
- (7) No stock is held by company
- (8) Not applicable
- (9) Surplus was reduced \$78,816 due to nonadmitted asset values.
- (10) Not applicable
- (11) Not applicable
- (12) Not applicable

14. Contingencies

- A. - C Not Applicable
- D. The Plan has committed no reserves to cover any contingent liabilities. There have been no lawsuits against the company that have arisen in the course of the company’s business. Contingent liabilities arising from litigation, income taxes, and other matters are not considered material in relation to the financial position of the plan.

15. Leases

Not applicable

Notes to Financial Statement

16. Information about Financial Instruments with Off-Balance Sheet Risk and Financial Instruments with Concentrations of Credit Risk

Not applicable

17. Sale, Transfer and Servicing of Financial Assets and Extinguishment of Liabilities

Not applicable

18. Gain or Loss to the Reporting Entity from Uninsured A&H Plans and the Uninsured Portion of Partially Insured Plans

Not applicable

19. Direct Premium Written/Produced by Managing General Agents/Third Party Administrators

Not applicable

20. Other Items

Not Applicable

21. Events Subsequent

Not applicable

22. Reinsurance

Not applicable

23. Retrospectively Rated Contracts and Contracts Subject to Redermination

Not applicable

24. Salvage and Subrogation

Not Applicable

25. Change in Incurred Claims and Claims Adjustment Expenses

The reserve for incurred claims is calculated based on a percentage of completion methodology. This methodology is based on actuarial projections of trends in service.

26. Organization and Operation

Preferred Health Partnership of Tennessee, Inc. (PHPT) became an at-risk HMO model in January 1, 1997, for the TennCare product in the State of Tennessee. In this model, the plan receives a monthly capitation check from the State to administer and pay claims for the assigned membership in the plan’s service area. PHPT and PHP Companies Inc, a holding company, have some common officers and members on their respective governing boards.

27. Minimum Net Worth

Under the laws of the State of Tennessee, the Plan is required to provide a contingency reserve based on the following:

The HMO must maintain a net worth requirement totaling four percent (4%) of the first one hundred fifty million dollars (\$150,000,000) of annual premium revenue as reported on the most recent annual statement filed with the commissioner and one and one half percent (1.5%) of annual premium revenue in excess of \$150,000,000.

2002 Premium	\$204,784,359		
	<u>\$150,000,000</u>	X 4.0%	6,000,000
	\$ 54,781,359	X 1.5%	<u>821,720</u>
<u>Minimum Net Worth Requirement:</u>			<u>\$6,821,720</u>

STATUTORY DEPOSIT:

Reporting Date: Minimum Requirement:  
\$900,000 on first \$20,000,000 of premium revenue plus an additional  
\$100,000 for every additional \$10,000,000 in premium revenue up to \$100,000,000.  
  
An additional \$50,000 deposit is required for every additional \$10,000,000 in premium revenue in excess of \$100,000,000

Notes to Financial Statement

2001 Premium	\$204,781,359				
	<b>20,000,000</b>			\$	900,000
	\$100,000,000				
	<u>(20,000,000)</u>				
	<b>80,000,000</b>	8	X	\$100,000	\$ 800,000
	\$204,781,359				
	<u>(100,000,000)</u>				
	<b>104,781,359</b>	11	X	\$ 50,000	\$ 550,000
Statutory Deposit Requirement					<u>\$2,250,000</u>



**SUMMARY INVESTMENT SCHEDULE**

Investment Categories		Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
		1 Amount	2 Percentage	3 Amount	4 Percentage
1.	Bonds:				
1.1	U.S. treasury securities .....				
1.2	U.S. government agency and corporate obligations (excluding mortgage-backed securities):				
1.21	Issued by U.S. government agencies .....	56,877,905	76.579	56,877,905	76.579
1.22	Issued by U.S. government sponsored agencies .....				
1.3	Foreign government (including Canada, excluding mortgage-backed securities) .....				
1.4	Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41	States, territories and possessions general obligations .....				
1.42	Political subdivisions of states, territories and possessions and political subdivisions general obligations .....				
1.43	Revenue and assessment obligations .....				
1.44	Industrial development and similar obligations .....	13,618,766	18.336	13,618,766	18.336
1.5	Mortgage-backed securities (includes residential and commercial MBS):				
1.51	Pass-through securities:				
1.511	Guaranteed by GNMA .....				
1.512	Issued by FNMA and FHLMC .....				
1.513	Privately issued .....				
1.52	CMOs and REMICs:				
1.521	Issued by FNMA and FHLMC .....				
1.522	Privately issued and collateralized by MBS issued or guaranteed by GNMA, FNMA, or FHLMC .....				
1.523	All other privately issued .....				
2.	Other debt and other fixed income securities (excluding short term):				
2.1	Unaffiliated domestic securities (includes credit tenant loans rated by the SVO) .....				
2.2	Unaffiliated foreign securities .....				
2.3	Affiliated securities .....				
3.	Equity interests:				
3.1	Investments in mutual funds .....				
3.2	Preferred stocks:				
3.21	Affiliated .....				
3.22	Unaffiliated .....				
3.3	Publicly traded equity securities (excluding preferred stocks):				
3.31	Affiliated .....				
3.32	Unaffiliated .....				
3.4	Other equity securities:				
3.41	Affiliated .....				
3.42	Unaffiliated .....				
3.5	Other equity interests including tangible personal property under lease:				
3.51	Affiliated .....				
3.52	Unaffiliated .....				
4.	Mortgage loans:				
4.1	Construction and land development .....				
4.2	Agricultural .....				
4.3	Single family residential properties .....				
4.4	Multifamily residential properties .....				
4.5	Commercial loans .....				
5.	Real estate investments:				
5.1	Property occupied by company .....				
5.2	Property held for production of income (includes \$..... of property acquired in satisfaction of debt) .....				
5.3	Property held for sale (\$..... including property acquired in satisfaction of debt) .....				
6.	Policy loans .....				
7.	Receivables for securities .....				
8.	Cash and short-term investments .....	3,776,349	5.084	3,776,349	5.084
9.	Other invested assets .....				
10.	Total invested assets .....	74,273,020	100.000	74,273,020	100.000

**GENERAL INTERROGATORIES**  
**PART 1 - COMMON INTERROGATORIES**  
**GENERAL**

- 1.1 Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer?

Yes[X] No[ ]
- 1.2 If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations?

Yes[X] No[ ] N/A[ ]  
.....Tennessee.....
- 1.3 State Regulating?
- 2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity?

Yes[ ] No[X]
- 2.2 If yes, date of change:  
If not previously filed, furnish herewith a certified copy of the instrument as amended.

.....  
.....12/12/2002.....
- 3.1 State as of what date the latest financial examination of the reporting entity was made or is being made.

.....12/12/2002.....
- 3.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released.

.....12/12/2002.....
- 3.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date).

.....12/12/2002.....
- 3.4 By what department or departments?  
Department of Commerce & Insurance - TennCare Division
- 4.1 During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity) receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.11 sales of new business?

Yes[ ] No[X]
- 4.12 renewals?

Yes[ ] No[X]
- 4.2 During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.21 sales of new business?

Yes[ ] No[X]
- 4.22 renewals?

Yes[ ] No[X]
- 5.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement?

Yes[ ] No[X]
- 5.2 If yes, provide the name of the entity, NAIC company code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1	2	3
Name of Entity	NAIC Company Code	State of Domicile
.....	.....	.....

- 6.1 Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? (You need not report an action either formal or informal, if a confidentiality clause is part of the agreement)

Yes[ ] No[X]
- 6.2 If yes, give full information:
- 7.1 Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity?

Yes[ ] No[X]
- 7.2 If yes,

..... %
- 7.21 State the percentage of foreign control
- 7.22 State the nationality(s) of the foreign person(s) or entity(s); or if the entity is a mutual or reciprocal, the nationality of its manager or attorney-in-fact and identify the type of entity(s) (e.g., individual, corporation, government, manager or attorney-in-fact)

1	2
Nationality	Type of Entity
.....	.....

## GENERAL INTERROGATORIES (continued)

8. What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?  
Pershing, Yoakley & Associates, Post Office Box 11746, Knoxville, TN 37939
9. What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with a(n) actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?  
William M. Mercer, Incorporated, 3700 Georgia Pacific Center, 133 Peachtree Street, Atlanta, GA 30303
10. FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:
  - 10.1 What changes have been made during the year in the United States manager or the United States trustees of the reporting entity?
  - 10.2 Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located?
  - 10.3 Have there been any changes made to any of the trust indentures during the year?
  - 10.4 If answer to (10.3) is yes, has the domiciliary or entry state approved the changes?

## BOARD OF DIRECTORS

- |   |              |
|---|--------------|
| 11. Is the purchase or sale of all investments of the reporting entity passed upon either by the Board of Directors or a subordinate committee thereof?   | Yes[X] No[ ] |
| 12. Does the reporting entity keep a complete permanent record of the proceedings of its Board of Directors and all subordinate committees thereof?   | Yes[X] No[ ] |
| 13. Has the reporting entity an established procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees which is in or is likely to conflict with the official duties of such person? | Yes[X] No[ ] |

## FINANCIAL

- |       |  |              |
|-------|--|--------------|
| 14.1  | Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):   |              |
| 14.11 | To directors or other officers   | \$ .....     |
| 14.12 | To stockholders not officers   | \$ .....     |
| 14.13 | Trustees, supreme or grand (Fraternal only)  | \$ .....     |
| 14.2  | Total amount of loans outstanding at end of year (inclusive of Separate Accounts, exclusive of policy loans):  |              |
| 14.21 | To directors or other officers   | \$ .....     |
| 14.22 | To stockholders not officers   | \$ .....     |
| 14.23 | Trustees, supreme or grand (Fraternal only)  | \$ .....     |
| 15.1  | Were any assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in the statement? | Yes[ ] No[X] |
| 15.2  | If yes, state the amount thereof at December 31 of the current year:   |              |
| 15.21 | Rented from others   | \$ .....     |
| 15.22 | Borrowed from others   | \$ .....     |
| 15.23 | Leased from others   | \$ .....     |
| 15.24 | Other  | \$ .....     |

Disclose in Notes to Financial the nature of each obligation.

- |       |  |              |
|-------|--|--------------|
| 16.1  | Does this statement include payments for assessments as described in the Annual Statement Instructions other than guaranty fund or guaranty association assessments? | Yes[ ] No[X] |
| 16.2  | If answer is yes:  |              |
| 16.21 | Amount paid as losses or risk adjustment   | \$ .....     |
| 16.22 | Amount paid as expenses  | \$ .....     |
| 16.23 | Other amounts paid   | \$ .....     |

**GENERAL INTERROGATORIES (continued)**

**INVESTMENT**

17. List the following capital stock information for the reporting entity:

	1	2	3	4	5	6
Class	Number of Shares Authorized	Number of Shares Outstanding	Par Value Per Share	Redemption Price If Callable	Is Dividend Rate Limited?	Are Dividends Cumulative?
1. Preferred .....	1,000.000	100.000	1.000		Yes[ ] No[ ] N/A[X]	Yes[ ] No[ ] N/A[X]
2. Common .....				X X X	X X X	X X X

18.1 Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date, except as shown by Schedule E - Part 2 - Special Deposits? Yes[ ] No[X]

18.2 If no, give full and complete information, relating thereto:  
Held at Northern Trust Company

19.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity, except as shown on Schedule E - Part 2 - Special Deposits, or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 15.1). Yes[ ] No[X]

19.2 If yes, state the amount thereof at December 31 of the current year:

19.21	Loaned to others	\$
19.22	Subject to repurchase agreements	\$
19.23	Subject to reverse repurchase agreements	\$
19.24	Subject to dollar repurchase agreements	\$
19.25	Subject to reverse dollar repurchase agreements	\$
19.26	Pledged as collateral	\$
19.27	Placed under option agreements	\$
19.28	Letter stock or securities restricted as to sale	\$
19.29	Other	\$

19.3 For each category above, if any of these assets are held by other, identify by whom held:

- 19.31
- 19.32
- 19.33
- 19.34
- 19.35
- 19.36
- 19.37
- 19.38
- 19.39

For categories (19.21) and (19.23) above, and for any securities that were made available for use by another person during the period covered by this statement, attach a schedule as shown in the instructions to the annual statement.

19.4 For category (19.28) provide the following:

1	2	3
Nature of Restriction	Description	Amount

20.1 Does the reporting entity have any hedging transactions reported on Schedule DB? Yes[ ] No[X]  
20.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes[ ] No[ ] N/A[X]  
If no, attach a description with this statement.

21.1 Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity? Yes[ ] No[X]

21.2 If yes, state the amount thereof at December 31 of the current year. \$

22. Excluding items in Schedule E, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Part 1 - General, Section IV.H-Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook? Yes[X] No[ ]  
22.1 For agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

1		2
Name of Custodian(s)		Custodian's Address
22.1001	Northern Trust Company .....	P.O. Box 75986, Chicago, IL 60675-5986 .....

**GENERAL INTERROGATORIES (continued)**

**INVESTMENT**

22.02 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

1 Name(s)	2 Location(s)	3 Complete Explanation(s)
.....	.....	.....

22.03 Have there been any changes, including name changes, in the custodian(s) identified in 22.01 during the current year? Yes[ ] No[X]  
22.04 If yes, give full and complete information relating thereto:

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason
.....	.....	.....	.....

22.05 Identify all investment advisers, brokers/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1 Central Registration Depository Number(s)	2 Name	3 Address
108718 .....	Martin and Company .....	Two Centre Square, Suite 200 ..... 625 S. Gay Street, Knoxville, TN 37902-1669 .....

23.1 Amount of payments to Trade Associations, Service Organizations and Statistical or Rating Bureaus, if any? \$ ..... 272,859  
23.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to Trade Associations, Service Organizations and Statistical or Rating Bureaus during the period covered by this statement.

1 Name	2 Amount Paid
William M. Mercer .....	..... 272,859

24.1 Amount of payments for legal expenses, if any? \$ ..... 231,907  
24.2 List the name of the firm and the amount paid if any such payments represented 25% or more of the total payments for legal expenses during the period covered by this statement.

1 Name	2 Amount Paid
Wagner, Myers, & Sanger, PC .....	..... 159,027

25.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or department of government, if any? \$ ..... 22,556  
25.2 List the name of firm and the amount paid if any such payment represented 25% or more of the total payment expenditures in connection with matters before legislative bodies officers or department of government during the period covered by this statement.

1 Name	2 Amount Paid
McMahan, McKenzie, & Winstead .....	..... 22,556



FIVE-YEAR HISTORICAL DATA

	1 2002	2 2001	3 2000	4 1999	5 1998
<b>BALANCE SHEET ITEMS (Pages 2 and 3)</b>					
1. Total admitted assets (Page 2, Line 23) .....	80,319,729	90,186,766	73,557,852	48,428,943	50,796,393
2. Total liabilities (Page 3, Line 18) .....	62,390,090	71,904,218	61,261,570	38,793,753	41,024,330
3. Statutory surplus .....					
4. Total capital and surplus (Page 3, Line 26) .....	17,929,640	18,282,548	12,296,282	9,635,190	9,772,063
<b>INCOME STATEMENT ITEMS (Page 4)</b>					
5. Total revenues (Line 7) .....	109,977,814	206,607,052	155,928,088	128,988,192	132,796,679
6. Total medical and hospital expenses (Line 17) .....	84,622,772	188,217,010	143,043,923	117,230,332	142,370,352
7. Total administrative expenses (Line 19) .....	25,094,419	19,930,506	13,399,441	17,336,960	23,622,015
8. Net underwriting gain (loss) (Line 22) .....	(5,012,557)	(6,876,106)	(6,347,020)	(5,579,100)	(33,195,688)
9. Net investment gain (loss) (Line 25) .....	4,659,647	4,802,118	4,093,226	2,745,538	2,238,769
10. Total other income (Lines 26 plus 27) .....					
11. Net income or (loss) (Line 30) .....	(352,910)	(2,073,988)	(2,253,794)	(2,833,562)	(30,956,919)
<b>RISK-BASED CAPITAL ANALYSIS</b>					
12. Total adjusted capital .....	17,929,640	18,282,548	12,296,282	9,635,190	9,772,063
13. Authorized control level risk-based capital .....	4,409,803	8,998,561	7,165,587	3,057,952	4,747,153
<b>ENROLLMENT (Exhibit 2)</b>					
14. Total members at end of period (Column 5, Line 7) .....	131,280	117,787	97,816	81,247	91,960
15. Total members months (Column 6, Line 7) .....	1,411,276	1,314,549	1,079,839	967,006	1,121,501
<b>OPERATING PERCENTAGE (Page 4)</b>					
<b>(Item divided by Page 4, sum of Lines 2, 3 and 5)</b>					
16. Premiums earned (Lines 2 plus 3) .....	100.0	100.0	100.0	100.0	100.0
17. Total medical and hospital (Line 17) .....	77.0	91.9	91.9	90.9	108.0
18. Total underwriting deductions (Line 21) .....	104.6	104.2	104.3	104.4	126.0
19. Total underwriting gain (loss) (Line 22) .....	(4.6)	(3.4)	(4.1)	(4.3)	(25.1)
<b>UNPAID CLAIMS ANALYSIS</b>					
<b>(U&amp;I Exhibit, Part 2B)</b>					
20. Total claims incurred for prior years (Line 11, Col. 5) .....	18,765,463	18,207,081	20,191,866	16,864,529	22,230,539
21. Estimated liability of unpaid claims-[prior year (Line 11, Col. 6)] ..	30,879,480	27,962,312	10,756,759	30,593,913	24,619,182

**FIVE-YEAR HISTORICAL DATA (Continued)**

		1 2002	2 2001	3 2000	4 1999	5 1998
<b>INVESTMENTS IN PARENT, SUBSIDIARIES AND AFFILIATES</b>						
22.	Affiliated bonds (Sch. D Summary, Line 25, Col. 1) .....					
23.	Affiliated preferred stocks (Sch. D Summary, Line 39, Col. 1) .....					
24.	Affiliated common stocks (Sch. D Summary, Line 53, Col. 2) .....					
25.	Affiliated short-term investments (subtotal included in Sch. DA, Part 2, Col. 5, Line 11) .....					
26.	Affiliated mortgage loans on real estate .....					
27.	All other affiliated .....					
28.	Total of above Lines 22 to 27 .....					

**NONE**





**EXHIBIT OF PREMIUMS, ENROLLMENT AND UTILIZATION**

REPORT FOR: 1. CORPORATION:      2. DIVISION:  
NAIC Group Code 1253      BUSINESS IN THE STATE OF **GRAND TOTAL** DURING THE YEAR      NAIC Company Code 95749

	1	Comprehensive (Hospital & Medical)		4	5	6	7	8	9	10
		2	3							
	Total	Individual	Group	Medicare Supplement	Vision Only	Dental Only	Federal Employees Health Benefit Plan	Title XVIII Medicare	Title XIX Medicaid	Other
<b>Total Members at end of:</b>										
1. Prior Year .....	117,787								117,787	
2. First Quarter .....	113,418								113,418	
3. Second Quarter .....	113,900								113,900	
4. Third Quarter .....	113,812								113,812	
5. Current Year .....	131,280								131,280	
6. Current Year Member Months .....	1,411,276								1,411,276	
<b>Total Member Ambulatory Encounters for Year:</b>										
7. Physician .....	851,920								851,920	
8. Non-Physician .....	391,154								391,154	
9. Total .....	1,243,074								1,243,074	
10. Hospital Patient Days Incurred .....	37,178								37,178	
11. Number of Inpatient Admissions .....	10,597								10,597	
12. Premiums Collected .....	108,385,968								108,385,968	
13. Premiums Earned .....	109,964,306								109,964,306	
14. Amount Paid for Provision of Health Care Services .....	112,385,474								112,385,474	
15. Amount of Incurred for Provision of Health Care Services .....	84,622,771								84,622,771	

34 Grand Total



**EXHIBIT OF PREMIUMS, ENROLLMENT AND UTILIZATION**

REPORT FOR: 1. CORPORATION:      2. DIVISION:

NAIC Group Code 1253

BUSINESS IN THE STATE OF **TENNESSEE** DURING THE YEAR

NAIC Company Code 95749

	1	Comprehensive (Hospital & Medical)		4	5	6	7	8	9	10
		2	3							
	Total	Individual	Group	Medicare Supplement	Vision Only	Dental Only	Federal Employees Health Benefit Plan	Title XVIII Medicare	Title XIX Medicaid	Other
<b>Total Members at end of:</b>										
1. Prior Year .....	117,787								117,787	
2. First Quarter .....	113,418								113,418	
3. Second Quarter .....	113,900								113,900	
4. Third Quarter .....	113,812								113,812	
5. Current Year .....	131,280								131,280	
6. Current Year Member Months .....	1,411,276								1,411,276	
<b>Total Member Ambulatory Encounters for Year:</b>										
7. Physician .....	851,920								851,920	
8. Non-Physician .....	391,154								391,154	
9. Total .....	1,243,074								1,243,074	
10. Hospital Patient Days Incurred .....	37,178								37,178	
11. Number of Inpatient Admissions .....	10,597								10,597	
12. Premiums Collected .....	108,385,968								108,385,968	
13. Premiums Earned .....	109,964,306								109,964,306	
14. Amount Paid for Provision of Health Care Services .....	112,385,474								112,385,474	
15. Amount of Incurred for Provision of Health Care Services .....	84,622,771								84,622,771	

**SCHEDULE A - VERIFICATION BETWEEN YEARS**

1.	Book/adjusted carrying value, December 31, prior year (prior year statement) .....	
2.	Increase (decrease) by adjustment:	
2.1	Totals, Part 1, Column 10 .....	
2.2	Totals, Part 3, Column 7 .....	
3.	Cost of acquired, (Totals, Part 2, Column 6, net of encumbrances (Column 7) and net of additions and permanent improvements (Column 9)) .....	
4.	Cost of additions and permanent improvements:	
4.1	Totals, Part 1, Column 13 .....	
4.2	Totals, Part 3, Column 9 .....	
5.	Total profit (loss) on sales, Part 3, Column 14 .....	
6.	Increase (decrease) by foreign exchange adjustment .....	
6.1	Totals, Part 1, Column 11 .....	
6.2	Totals, Part 3, Column 8 .....	
7.	Amounts received on sales, Part 3, Column 11 and Part 1, Column 12 .....	
8.	Book/adjusted carrying value at the end of current period .....	
9.	Total valuation allowance .....	
10.	Subtotal (Lines 8 plus 9) .....	
11.	Total nonadmitted amounts .....	
12.	Statement value, current period (Page 2, real estate lines, current period) .....	

NONE

**SCHEDULE B - VERIFICATION BETWEEN YEARS**

1.	Book value/recorded investment excluding accrued interest of mortgages owned, December 31 of prior year .....	
2.	Amount loaned during year:	
2.1	Actual cost at time of acquisitions .....	
2.2	Additional investment made after acquisitions .....	
3.	Accrual of discount and mortgage interest points and commitment fees .....	
4.	Increase (decrease) by adjustment .....	
5.	Total profit (loss) on sale .....	
6.	Amounts paid on account or in full during the year .....	
7.	Amortization of premium .....	
8.	Increase (decrease) by foreign exchange adjustment .....	
9.	Book value/recorded investment excluding accrued interest on mortgages owned at end of current period .....	
10.	Total valuation allowance .....	
11.	Subtotal (Lines 9 plus 10) .....	
12.	Total nonadmitted amounts .....	
13.	Statement value of mortgages owned at end of current period .....	

NONE

**SCHEDULE BA - VERIFICATION BETWEEN YEARS**

1.	Book/adjusted carrying value of long-term invested assets owned, December 31 of prior year .....	
2.	Cost of acquisitions during year:	
2.1	Actual cost at time of acquisitions .....	
2.2	Additional investment made after acquisitions .....	
3.	Accrual of discount .....	
4.	Increase (decrease) by adjustment .....	
5.	Total profit (loss) on sale .....	
6.	Amounts paid on account or in full during the year .....	
7.	Amortization of premium .....	
8.	Increase (decrease) by foreign exchange adjustment .....	
9.	Book/adjusted carrying value of long-term invested assets at end of current period .....	
10.	Total valuation allowance .....	
11.	Subtotal (Lines 9 plus 10) .....	
12.	Total nonadmitted amounts .....	
13.	Statement value of long-term invested assets at end of current period .....	

NONE

**SCHEDULE D - SUMMARY BY COUNTRY**  
**Long-term Bonds and Stocks OWNED December 31 of Current Year**

Description			1 Book/Adjusted Carrying Value	2 Fair Value (a)	3 Actual Cost	4 Par Value of Bonds
BONDS Governments (Including all obligations guaranteed by governments)	1.	United States .....	56,878,072	59,255,567	57,188,600	56,172,262
	2.	Canada .....				
	3.	Other Countries .....				
	4.	Totals .....	56,878,072	59,255,567	57,188,600	56,172,262
States, Territories and Possessions (Direct and Guaranteed)	5.	United States .....				
	6.	Canada .....				
	7.	Other Countries .....				
	8.	Totals .....				
Political Subdivisions of States, Territories and Possessions (Direct and Guaranteed)	9.	United States .....				
	10.	Canada .....				
	11.	Other Countries .....				
	12.	Totals .....				
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	13.	United States .....				
	14.	Canada .....				
	15.	Other Countries .....				
	16.	Totals .....				
Public Utilities (unaffiliated)	17.	United States .....				
	18.	Canada .....				
	19.	Other Countries .....				
	20.	Totals .....				
Industrial and Miscellaneous and Credit Tenant Loans (unaffiliated)	21.	United States .....	13,618,766	14,773,770	13,668,945	13,500,000
	22.	Canada .....				
	23.	Other Countries .....				
	24.	Totals .....	13,618,766	14,773,770	13,668,945	13,500,000
Parent, Subsidiaries and Affiliates	25.	Totals .....				
	26.	Total Bonds .....	70,496,838	74,029,337	70,857,545	69,672,262
PREFERRED STOCKS Public Utilities (unaffiliated)	27.	United States .....				
	28.	Canada .....				
	29.	Other Countries .....				
	30.	Totals .....				
Banks, Trust and Insurance Companies (unaffiliated)	31.	United States .....				
	32.	Canada .....				
	33.	Other Countries .....				
	34.	Totals .....				
Industrial and Miscellaneous (unaffiliated)	35.	United States .....				
	36.	Canada .....				
	37.	Other Countries .....				
	38.	Totals .....				
Parent, Subsidiaries and Affiliates	39.	Totals .....				
	40.	Total Preferred Stocks .....				
COMMON STOCKS Public Utilities (unaffiliated)	41.	United States .....				
	42.	Canada .....				
	43.	Other Countries .....				
	44.	Totals .....				
Banks, Trust and Insurance Companies (unaffiliated)	45.	United States .....				
	46.	Canada .....				
	47.	Other Countries .....				
	48.	Totals .....				
Industrial and Miscellaneous (unaffiliated)	49.	United States .....				
	50.	Canada .....				
	51.	Other Countries .....				
	52.	Totals .....				
Parent, Subsidiaries and Affiliates	53.	Totals .....				
	54.	Total Common Stocks .....				
	55.	Total Stocks .....				
	56.	Total Bonds and Stocks .....	70,496,838	74,029,337	70,857,545	

(a) The aggregate value of bonds which are valued at other than actual fair value is \$.....

**SCHEDULE D - Verification Between Years**

1. Book/adjusted carrying value of bonds and stocks, prior year.	<u>75,918,919</u>	6. Foreign Exchange Adjustment	
2. Cost of bonds and stocks acquired, Column 6, Part 3.....	<u>31,837,982</u>	6.1 Column 17, Part 1.....	
3. Increase (decrease) by adjustment:		6.2 Column 13, Part 2, Section 1.....	
3.1 Column 16, Part 1.....	<u>(301,604)</u>	6.3 Column 11, Part 2, Section 2.....	
3.2 Column 12, Part 2, Section 1.....		6.4 Column 11, Part 4.....	
3.3 Column 10, Part 2, Section 2.....			
3.4 Column 10, Part 4.....	<u>(11,320)</u>	7. Book/adjusted carrying value at end of current period.....	<u>70,496,839</u>
4. Total gain (loss), Column 14, Part 4.....	<u>910,387</u>	8. Total valuation allowance.....	
5. Deduct consideration for bonds and stocks disposed of		9. Subtotal (Lines 7 plus 8).....	<u>70,496,839</u>
Column 6, Part 4.....	<u>37,857,526</u>	10. Total nonadmitted assets.....	
		11. Statement value of bonds and stocks, current period.....	<u>70,496,839</u>

SCHEDULE D - PART 1A - SECTION 1

Quality and Maturity Distribution of All Bonds Owned December 31, at Book/Adjusted Carrying Values by Major Types of Issues and NAIC Designations

Quality Rating Per the NAIC Designation		1 1 Year or Less	2 Over 1 Year Through 5 Years	3 Over 5 Years Through 10 Years	4 Over 10 Years Through 20 Years	5  Over 20 Years	6  Total Current Year	7 Column 6 as a % of Line 10.7	8 Total From Column 6 Prior Year	9 % From Column 7 Prior Year	10 Total Publicly Traded	11 Total Privately Placed (a)
1.	U.S. GOVERNMENTS, SCHEDULES D & DA (Group 1)											
1.1	Class 1	10,474,522	37,415,335	8,988,215			56,878,072	80.68	61,348,497	80.81	56,877,904	
1.2	Class 2											
1.3	Class 3											
1.4	Class 4											
1.5	Class 5											
1.6	Class 6											
1.7	TOTALS	10,474,522	37,415,335	8,988,215			56,878,072	80.68	61,348,497	80.81	56,877,904	
2.	ALL OTHER GOVERNMENTS, SCHEDULES D & DA (Group 2)											
2.1	Class 1											
2.2	Class 2											
2.3	Class 3											
2.4	Class 4											
2.5	Class 5											
2.6	Class 6											
2.7	TOTALS											
3.	STATES, TERRITORIES AND POSSESSIONS ETC., GUARANTEED, SCHEDULES D & DA (Group 3)											
3.1	Class 1											
3.2	Class 2											
3.3	Class 3											
3.4	Class 4											
3.5	Class 5											
3.6	Class 6											
3.7	TOTALS											
4.	POLITICAL SUBDIVISIONS OF STATES, TERRITORIES & POSSESSIONS, GUARANTEED, SCHEDULES D & DA (Group 4)											
4.1	Class 1											
4.2	Class 2											
4.3	Class 3											
4.4	Class 4											
4.5	Class 5											
4.6	Class 6											
4.7	TOTALS											
5.	SPECIAL REVENUE & SPECIAL ASSESSMENT OBLIGATIONS ETC., NON-GUARANTEED, SCHEDULES D & DA (Group 5)											
5.1	Class 1											
5.2	Class 2											
5.3	Class 3											
5.4	Class 4											
5.5	Class 5											
5.6	Class 6											
5.7	TOTALS											

**SCHEDULE D - PART 1A - SECTION 1 (continued)**

**Quality and Maturity Distribution of All Bonds Owned December 31, at Book/Adjusted Carrying Values by Major Types of Issues and NAIC Designations**

Quality Rating Per the NAIC Designation	1 1 Year or Less	2 Over 1 Year Through 5 Years	3 Over 5 Years Through 10 Years	4 Over 10 Years Through 20 Years	5 Over 20 Years	6 Total Current Year	7 Column 6 as a % of Line 10.7	8 Total From Column 6 Prior Year	9 % From Column 7 Prior Year	10 Total Publicly Traded	11 Total Privately Placed (a)
6. PUBLIC UTILITIES (UNAFFILIATED), SCHEDULES D & DA (Group 6)											
6.1 Class 1 .....											
6.2 Class 2 .....											
6.3 Class 3 .....											
6.4 Class 4 .....											
6.5 Class 5 .....											
6.6 Class 6 .....											
6.7 TOTALS .....											
7. INDUSTRIAL & MISCELLANEOUS (UNAFFILIATED), SCHEDULES D & DA (Group 7)											
7.1 Class 1 .....		3,544,630	6,493,215			10,037,845	14.24	14,570,423	19.19	10,037,845	
7.2 Class 2 .....		1,997,650	1,583,271			3,580,921	5.08			3,580,921	
7.3 Class 3 .....											
7.4 Class 4 .....											
7.5 Class 5 .....											
7.6 Class 6 .....											
7.7 TOTALS .....		5,542,280	8,076,486			13,618,766	19.32	14,570,423	19.19	13,618,766	
8. CREDIT TENANT LOANS, SCHEDULES D & DA (Group 8)											
8.1 Class 1 .....											
8.2 Class 2 .....											
8.3 Class 3 .....											
8.4 Class 4 .....											
8.5 Class 5 .....											
8.6 Class 6 .....											
8.7 TOTALS .....											
9. PARENT, SUBSIDIARIES AND AFFILIATES, SCHEDULES D & DA (Group 9)											
9.1 Class 1 .....											
9.2 Class 2 .....											
9.3 Class 3 .....											
9.4 Class 4 .....											
9.5 Class 5 .....											
9.6 Class 6 .....											
9.7 TOTALS .....											

**SCHEDULE D - PART 1A - SECTION 1 (continued)**

**Quality and Maturity Distribution of All Bonds Owned December 31, at Book/Adjusted Carrying Values By Major Types of Issues and NAIC Designations**

	1	2	3	4	5	6	7	8	9	10	11
Quality Rating Per the NAIC Designation	1 Year or Less	Over 1 Year Through 5 Years	Over 5 Years Through 10 Years	Over 10 Years Through 20 Years	Over 20 Years	Total Current Year	Column 6 as a % of Line 10.7	Total From Column 6 Prior Year	% From Column 7 Prior Year	Total Publicly Traded	Total Privately Placed (a)
10. TOTAL BONDS CURRENT YEAR											
10.1 Class 1 .....	10,474,522	40,959,965	15,481,430			66,915,917	94.92	X X X	X X X	66,915,749	
10.2 Class 2 .....		1,997,650	1,583,271			3,580,921	5.08	X X X	X X X	3,580,921	
10.3 Class 3 .....								X X X	X X X		
10.4 Class 4 .....								X X X	X X X		
10.5 Class 5 .....						(c)		X X X	X X X		
10.6 Class 6 .....						(c)		X X X	X X X		
10.7 TOTALS .....	10,474,522	42,957,615	17,064,701			(b) 70,496,838	100.00	X X X	X X X	70,496,670	
10.8 Line 10.7 as a % of Column 6 .....	14.86	60.94	24.21			100.00	X X X	X X X	X X X	100.00	
11. TOTAL BONDS PRIOR YEAR											
11.1 Class 1 .....	6,300,228	41,046,390	28,572,302			X X X	X X X	75,918,920	100.00	75,918,919	
11.2 Class 2 .....						X X X	X X X				
11.3 Class 3 .....						X X X	X X X				
11.4 Class 4 .....						X X X	X X X				
11.5 Class 5 .....						X X X	X X X	(c)			
11.6 Class 6 .....						X X X	X X X	(c)			
11.7 TOTALS .....	6,300,228	41,046,390	28,572,302			X X X	X X X	(b) 75,918,920	100.00	75,918,919	
11.8 Line 11.7 as a % of Col. 8 .....	8.30	54.07	37.64			X X X	X X X	100.00	X X X	100.00	
12. TOTAL PUBLICLY TRADED BONDS											
12.1 Class 1 .....	10,474,522	40,959,797	15,481,431			66,915,750	94.92	75,918,919	100.00	66,915,749	X X X
12.2 Class 2 .....		1,997,650	1,583,271			3,580,921	5.08			3,580,921	X X X
12.3 Class 3 .....											X X X
12.4 Class 4 .....											X X X
12.5 Class 5 .....											X X X
12.6 Class 6 .....											X X X
12.7 TOTALS .....	10,474,522	42,957,447	17,064,702			70,496,671	100.00	75,918,919	100.00	70,496,670	X X X
12.8 Line 12.7 as a % of Col. 6 .....	14.86	60.94	24.21			100.00	X X X	X X X	X X X	100.00	X X X
12.9 Line 12.7 as a % of Line 10.7, Col. 6, Section 10 .....	14.86	60.94	24.21			100.00	X X X	X X X	X X X	100.00	X X X
13. TOTAL PRIVATELY PLACED BONDS											
13.1 Class 1 .....										X X X	
13.2 Class 2 .....										X X X	
13.3 Class 3 .....										X X X	
13.4 Class 4 .....										X X X	
13.5 Class 5 .....										X X X	
13.6 Class 6 .....										X X X	
13.7 TOTALS .....										X X X	
13.8 Line 13.7 as a % of Col. 6 .....							X X X	X X X	X X X	X X X	
13.9 Line 13.7 as a % of Line 10.7, Col. 6, Section 10 .....							X X X	X X X	X X X	X X X	

(a) Includes \$..... freely tradable under SEC Rule 144 or qualified for resale under SEC Rule 144A.  
(b) Includes \$..... current year, \$..... prior year of bonds with Z designations and \$..... current year, \$..... prior year of bonds with Z\* designations. The letter "Z" means the NAIC designation was not assigned by the Securities Valuation Office (SVO) at the date of the statement. "Z\*" means the SVO could not evaluate the obligation because valuation procedures for the security class is under regulatory review.  
(c) Includes \$..... current year, \$..... prior year of bonds with 5\* designations and \$..... current year, \$..... prior year of bonds with 6\* designations. "5\*" means the NAIC designation was assigned by the SVO in reliance on the insurer's certification that the issuer is current in all principal and interest payments. "6\*" means the NAIC designation was assigned by the SVO due to inadequate certification of principal and interest payments.

**SCHEDULE D - PART 1A - SECTION 2**

**Maturity Distribution of All Bonds Owned December 31, At Book/Adjusted Carrying Values by Major Types of and subtype of Issues**

Distribution by Type		1 1 Year or Less	2 Over 1 Year Through 5 Years	3 Over 5 Years Through 10 Years	4 Over 10 Years Through 20 Years	5  Over 20 Years	6  Total Current Year	7 Column 6 as a % of Line 10.7	8 Total From Column 6 Prior Year	9 % From Column 7 Prior Year	10 Total Publicly Traded	11 Total Privately Placed
1.	U.S. GOVERNMENTS, SCHEDULES D & DA (Group 1)											
1.1	Issuer Obligations .....	10,474,522	37,415,335	8,988,215			56,878,072	80.68	61,348,497	80.81	56,877,904	
1.2	Single Class Mortgage-Backed/Asset-Backed Bonds .....											
1.7	TOTALS .....	10,474,522	37,415,335	8,988,215			56,878,072	80.68	61,348,497	80.81	56,877,904	
2.	ALL OTHER GOVERNMENTS, SCHEDULES D & DA (Group 2)											
2.1	Issuer Obligations .....											
2.2	Single Class Mortgage-Backed/Asset-Backed Bonds .....											
	<b>MULTI-CLASS RESIDENTIAL MORTGAGE-BACKED SECURITIES:</b>											
2.3	Defined .....											
2.4	Other .....											
	<b>MULTI-CLASS COMMERCIAL MORTGAGE-BACKED/ASSET-BACKED SECURITIES:</b>											
2.5	Defined .....											
2.6	Other .....											
2.7	TOTALS .....											
3.	STATES, TERRITORIES AND POSSESSIONS, GUARANTEED, SCHEDULES D & DA (Group 3)											
3.1	Issuer Obligations .....											
3.2	Single Class Mortgage-Backed/Asset-Backed Bonds .....											
	<b>MULTI-CLASS RESIDENTIAL MORTGAGE-BACKED SECURITIES:</b>											
3.3	Defined .....											
3.4	Other .....											
	<b>MULTI-CLASS COMMERCIAL MORTGAGE-BACKED/ASSET-BACKED SECURITIES:</b>											
3.5	Defined .....											
3.6	Other .....											
3.7	TOTALS .....											
4.	POLITICAL SUBDIVISIONS OF STATES, TERRITORIES & POSSESSIONS, GUARANTEED, SCHEDULES D & DA (Group 4)											
4.1	Issuer Obligations .....											
4.2	Single Class Mortgage-Backed/Asset-Backed Bonds .....											
	<b>MULTI-CLASS RESIDENTIAL MORTGAGE-BACKED SECURITIES:</b>											
4.3	Defined .....											
4.4	Other .....											
	<b>MULTI-CLASS COMMERCIAL MORTGAGE-BACKED/ASSET-BACKED SECURITIES:</b>											
4.5	Defined .....											
4.6	Other .....											
4.7	TOTALS .....											
5.	SPECIAL REVENUE & SPECIAL ASSESSMENT OBLIGATIONS ETC., NON-GUAR., SCH. D & DA (Group 5)											
5.1	Issuer Obligations .....											
5.2	Single Class Mortgage-Backed/Asset-Backed Bonds .....											
	<b>MULTI-CLASS RESIDENTIAL MORTGAGE-BACKED SECURITIES:</b>											
5.3	Defined .....											
5.4	Other .....											
	<b>MULTI-CLASS COMMERCIAL MORTGAGE-BACKED/ASSET-BACKED SECURITIES:</b>											
5.5	Defined .....											
5.6	Other .....											
5.7	TOTALS .....											



**SCHEDULE D - PART 1A - SECTION 2 (continued)**

**Maturity Distribution of All Bonds Owned December 31, At Book/Adjusted Carrying Values by Major Types of and subtype of Issues**

	1 1 Year or Less	2 Over 1 Year Through 5 Years	3 Over 5 Years Through 10 Years	4 Over 10 Years Through 20 Years	5 Over 20 Years	6 Total Current Year	7 Column 6 as a % of Line 10.7	8 Total From Column 6 Prior Year	9 % From Column 7 Prior Year	10 Total Publicly Traded	11 Total Privately Placed
Distribution by Type											
6. PUBLIC UTILITIES (UNAFFILIATED), SCHEDULES D & DA (Group 6)											
6.1 Issuer Obligations .....											
6.2 Single Class Mortgage-Backed/Asset-Backed Bonds .....											
<b>MULTI-CLASS RESIDENTIAL MORTGAGE-BACKED SECURITIES:</b>											
6.3 Defined .....											
6.4 Other .....											
<b>MULTI-CLASS COMMERCIAL MORTGAGE-BACKED/ASSET-BACKED SECURITIES:</b>											
6.5 Defined .....											
6.6 Other .....											
6.7 TOTALS .....											
7. INDUSTRIAL & MISCELLANEOUS (UNAFFILIATED), SCHEDULES D & DA (Group 7)											
7.1 Issuer Obligations .....		5,542,280	8,076,486			13,618,766	19.32	14,570,422	19.19	13,618,766	
7.2 Single Class Mortgage-Backed/Asset-Backed Bonds .....											
<b>MULTI-CLASS RESIDENTIAL MORTGAGE-BACKED SECURITIES:</b>											
7.3 Defined .....											
7.4 Other .....											
<b>MULTI-CLASS COMMERCIAL MORTGAGE-BACKED/ASSET-BACKED SECURITIES:</b>											
7.5 Defined .....											
7.6 Other .....											
7.7 TOTALS .....		5,542,280	8,076,486			13,618,766	19.32	14,570,422	19.19	13,618,766	
8. CREDIT TENANT LOANS, SCHEDULES D & DA (Group 8)											
8.1 Issuer Obligations .....											
8.7 TOTALS .....											
9. PARENT, SUBSIDIARIES AND AFFILIATES, SCHEDULES D & DA (Group 9)											
9.1 Issuer Obligations .....											
9.2 Single Class Mortgage-Backed/Asset-Backed Bonds .....											
<b>MULTI-CLASS RESIDENTIAL MORTGAGE-BACKED SECURITIES:</b>											
9.3 Defined .....											
9.4 Other .....											
<b>MULTI-CLASS COMMERCIAL MORTGAGE-BACKED/ASSET-BACKED SECURITIES:</b>											
9.5 Defined .....											
9.6 Other .....											
9.7 TOTALS .....											

**SCHEDULE D - PART 1A - SECTION 2 (continued)**

**Maturity Distribution of All Bonds Owned December 31, At Book/Adjusted Carrying Values by Major Types of and subtype of Issues**

Distribution by Type		1 1 Year or Less	2 Over 1 Year Through 5 Years	3 Over 5 Years Through 10 Years	4 Over 10 Years Through 20 Years	5 Over 20 Years	6 Total Current Year	7 Column 6 as a % of Line 10.7	8 Total From Column 6 Prior Year	9 % From Column 7 Prior Year	10 Total Publicly Traded	11 Total Privately Placed
10.	TOTAL BONDS CURRENT YEAR											
10.1	Issuer Obligations .....	10,474,522	42,957,615	17,064,701			70,496,838	100.00	X X X	X X X	70,496,670	
10.2	Single Class Mortgage-Backed/Asset-Backed Bonds .....								X X X	X X X		
MULTI-CLASS RESIDENTIAL MORTGAGE-BACKED SECURITIES:												
10.3	Defined .....								X X X	X X X		
10.4	Other .....								X X X	X X X		
MULTI-CLASS COMMERCIAL MORTGAGE-BACKED/ASSET-BACKED SECURITIES:												
10.5	Defined .....								X X X	X X X		
10.6	Other .....								X X X	X X X		
10.7	TOTALS .....	10,474,522	42,957,615	17,064,701			70,496,838	100.00	X X X	X X X	70,496,670	
10.8	Line 10.7 as a % of Column 6 .....	14.86	60.94	24.21			100.00	X X X	X X X	X X X	100.00	
11.	TOTAL BONDS PRIOR YEAR											
11.1	Issuer Obligations .....	6,300,228	41,046,389	28,572,302			X X X	X X X	75,918,919	100.00	75,918,919	
11.2	Single Class Mortgage-Backed/Asset-Backed Bonds .....						X X X	X X X				
MULTI-CLASS RESIDENTIAL MORTGAGE-BACKED SECURITIES:												
11.3	Defined .....						X X X	X X X				
11.4	Other .....						X X X	X X X				
MULTI-CLASS COMMERCIAL MORTGAGE-BACKED/ASSET-BACKED SECURITIES:												
11.5	Defined .....						X X X	X X X				
11.6	Other .....						X X X	X X X				
11.7	TOTALS .....	6,300,228	41,046,389	28,572,302			X X X	X X X	75,918,919	100.00	75,918,919	
11.8	Line 11.7 as a % of Column 8 .....	8.30	54.07	37.64			X X X	X X X	100.00	X X X	100.00	
12.	TOTAL PUBLICLY TRADED BONDS											
12.1	Issuer Obligations .....	10,474,522	42,957,447	17,064,702			70,496,671	100.00	75,918,919	100.00	70,496,671	X X X
12.2	Single Class Mortgage-Backed/Asset-Backed Bonds .....											X X X
MULTI-CLASS RESIDENTIAL MORTGAGE-BACKED SECURITIES:												
12.3	Defined .....											X X X
12.4	Other .....											X X X
MULTI-CLASS COMMERCIAL MORTGAGE-BACKED/ASSET-BACKED SECURITIES:												
12.5	Defined .....											X X X
12.6	Other .....											X X X
12.7	TOTALS .....	10,474,522	42,957,447	17,064,702			70,496,671	100.00	75,918,919	100.00	70,496,671	X X X
12.8	Line 12.7 as a % of Column 6 .....	14.86	60.94	24.21			100.00	X X X	X X X	X X X	100.00	X X X
12.9	Line 12.7 as a % of Line 10.7, Column 6, Section 10 .....	14.86	60.94	24.21			100.00	X X X	X X X	X X X	100.00	X X X
13.	TOTAL PRIVATELY PLACED BONDS											
13.1	Issuer Obligations .....										X X X	
13.2	Single Class Mortgage-Backed/Asset-Backed Bonds .....										X X X	
MULTI-CLASS RESIDENTIAL MORTGAGE-BACKED SECURITIES:												
13.3	Defined .....										X X X	
13.4	Other .....										X X X	
MULTI-CLASS COMMERCIAL MORTGAGE-BACKED/ASSET-BACKED SECURITIES:												
13.5	Defined .....										X X X	
13.6	Other .....										X X X	
13.7	TOTALS .....										X X X	
13.8	Line 13.7 as a % of Column 6 .....							X X X	X X X	X X X	X X X	
13.9	Line 13.7 as a % of Line 10.7, Column 6, Section 10 .....							X X X	X X X	X X X	X X X	

43	Schedule DA Part 2 - .....	NONE
44	Schedule DB Part A Verification - .....	NONE
44	Schedule DB Part B Verification - .....	NONE
45	Schedule DB Part C Verification - .....	NONE
45	Schedule DB Part D Verification - .....	NONE
45	Schedule DB Part E Verification - .....	NONE
46	Schedule DB Part F Sn 1 - Sum Replicated Assets - .....	NONE
47	Schedule DB Part F Sn 2 - Recon Replicated Assets - .....	NONE
48	Schedule S - Part 1 - Section 2 - .....	NONE
49	Schedule S - Part 2 - .....	NONE
50	Schedule S - Part 3 - Section 2 - .....	NONE
51	Schedule S - Part 4 - .....	NONE
52	Schedule S - Part 5 - .....	NONE

**SCHEDULE S - PART 6**  
**Restatement of Balance Sheet to Identify Net Credit For Ceded Reinsurance**

	1 As Reported (net of ceded)	2 Restatement Adjustments	3 Restated (gross of ceded)
<b>ASSETS (Page 2, Col. 3)</b>			
1. Cash and invested assets (Line 9) .....	74,273,188		74,273,188
2. Amounts recoverable from reinsurers (Line 12) .....			
3. Accident and health premiums due and unpaid (Line 10) .....	2,518,183		2,518,183
4. Net credit for ceded reinsurance .....	X X X		
5. All other admitted assets (Balance) .....	3,528,358		3,528,358
6. Total assets (Line 23) .....	80,319,729		80,319,729
<b>LIABILITIES, CAPITAL AND SURPLUS (Page 3)</b>			
7. Claims unpaid (Line 1) .....	3,116,777		3,116,777
8. Accrued medical incentive pool and bonus payments (Line 2) .....			
9. Premiums received in advance (Line 6) .....			
10. Reinsurance in unauthorized companies (Line 14) .....			
11. All other liabilities (Balance) .....	59,273,313		59,273,313
12. Total liabilities (Line 18) .....	62,390,090		62,390,090
13. Total capital and surplus (Line 26) .....	17,929,640	X X X	17,929,640
14. Total liabilities, capital and surplus (Line 27) .....	80,319,730		80,319,730
<b>NET CREDIT FOR CEDED REINSURANCE</b>			
15. Claims unpaid .....			
16. Accrued medical incentive pool .....			
17. Premiums received in advance .....			
18. Reinsurance recoverable on paid losses .....			
19. Other ceded reinsurance recoverables .....			
20. Total ceded reinsurance recoverables .....			
21. Premiums receivable .....			
22. Unauthorized reinsurance .....			
23. Other ceded reinsurance payables/offsets .....			
24. Total ceded reinsurance payables/offsets .....			
25. Total net credit for ceded reinsurance .....			

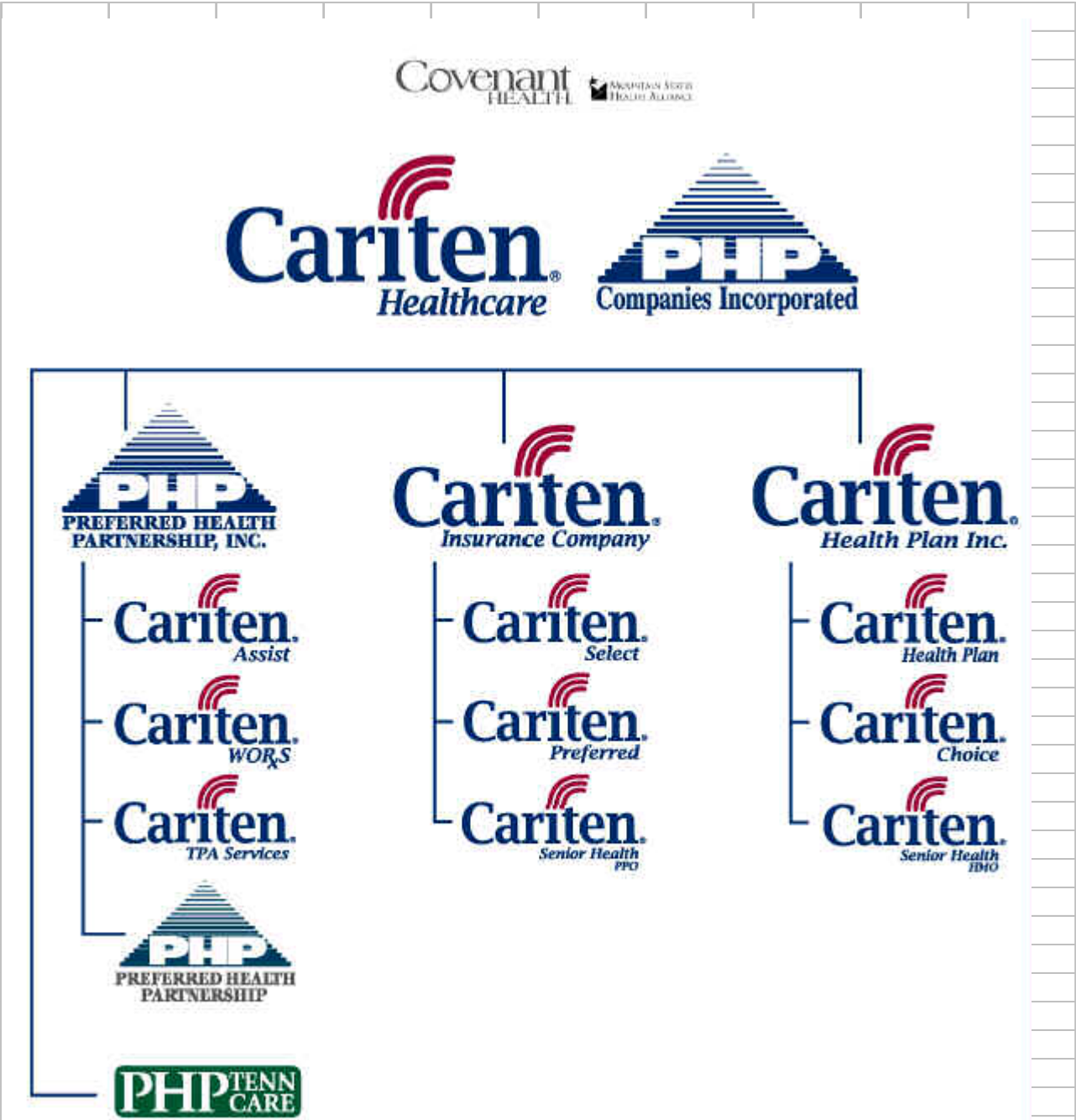
**SCHEDULE T - PREMIUMS AND OTHER CONSIDERATIONS**

**Allocated by States and Territories**

			1	2	Direct Business Only			
			Guaranty Fund (Yes or No)	Is Insurer Licensed (Yes or No)	3	4	5	6
State, Etc.					Premiums	Medicare Title XVIII	Medicaid Title XIX	Federal Employees Health Benefits Program Premiums
1.	Alabama	AL .....	... No ...	... No ...				
2.	Alaska	AK .....	... No ...	... No ...				
3.	Arizona	AZ .....	... No ...	... No ...				
4.	Arkansas	AR .....	... No ...	... No ...				
5.	California	CA .....	... No ...	... No ...				
6.	Colorado	CO .....	... No ...	... No ...				
7.	Connecticut	CT .....	... No ...	... No ...				
8.	Delaware	DE .....	... No ...	... No ...				
9.	District of Columbia	DC .....	... No ...	... No ...				
10.	Florida	FL .....	... No ...	... No ...				
11.	Georgia	GA .....	... No ...	... No ...				
12.	Hawaii	HI .....	... No ...	... No ...				
13.	Idaho	ID .....	... No ...	... No ...				
14.	Illinois	IL .....	... No ...	... No ...				
15.	Indiana	IN .....	... No ...	... No ...				
16.	Iowa	IA .....	... No ...	... No ...				
17.	Kansas	KS .....	... No ...	... No ...				
18.	Kentucky	KY .....	... No ...	... No ...				
19.	Louisiana	LA .....	... No ...	... No ...				
20.	Maine	ME .....	... No ...	... No ...				
21.	Maryland	MD .....	... No ...	... No ...				
22.	Massachusetts	MA .....	... No ...	... No ...				
23.	Michigan	MI .....	... No ...	... No ...				
24.	Minnesota	MN .....	... No ...	... No ...				
25.	Mississippi	MS .....	... No ...	... No ...				
26.	Missouri	MO .....	... No ...	... No ...				
27.	Montana	MT .....	... No ...	... No ...				
28.	Nebraska	NE .....	... No ...	... No ...				
29.	Nevada	NV .....	... No ...	... No ...				
30.	New Hampshire	NH .....	... No ...	... No ...				
31.	New Jersey	NJ .....	... No ...	... No ...				
32.	New Mexico	NM .....	... No ...	... No ...				
33.	New York	NY .....	... No ...	... No ...				
34.	North Carolina	NC .....	... No ...	... No ...				
35.	North Dakota	ND .....	... No ...	... No ...				
36.	Ohio	OH .....	... No ...	... No ...				
37.	Oklahoma	OK .....	... No ...	... No ...				
38.	Oregon	OR .....	... No ...	... No ...				
39.	Pennsylvania	PA .....	... No ...	... No ...				
40.	Rhode Island	RI .....	... No ...	... No ...				
41.	South Carolina	SC .....	... No ...	... No ...				
42.	South Dakota	SD .....	... No ...	... No ...				
43.	Tennessee	TN .....	... No ...	... Yes ..			109,964,306	
44.	Texas	TX .....	... No ...	... No ...				
45.	Utah	UT .....	... No ...	... No ...				
46.	Vermont	VT .....	... No ...	... No ...				
47.	Virginia	VA .....	... No ...	... No ...				
48.	Washington	WA .....	... No ...	... No ...				
49.	West Virginia	WV .....	... No ...	... No ...				
50.	Wisconsin	WI .....	... No ...	... No ...				
51.	Wyoming	WY .....	... No ...	... No ...				
52.	American Samoa	AS .....	... No ...	... No ...				
53.	Guam	GU .....	... No ...	... No ...				
54.	Puerto Rico	PR .....	... No ...	... No ...				
55.	U.S. Virgin Islands	VI .....	... No ...	... No ...				
56.	Canada	CN .....	... No ...	... No ...				
57.	Aggregate other alien	OT .....	... X X X ...	... X X X ...				
58.	TOTAL (Direct Business) .....		... X X X ...	(a)..... 1			109,964,306	
DETAILS OF WRITE-INS								
5701	.....							
5702	.....							
5703	.....							
5798.	Summary of remaining write-ins for Line 57 from overflow page .....							
5799.	TOTALS (Lines 5701 through 5703 plus 5798) (Line 57 above) .....							

(a) Insert the number of yes responses except for Canada and Other Alien.  
Explanation of basis of allocation of premiums by states, etc.:

SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP  
PART 1 - ORGANIZATIONAL CHART



**SCHEDULE Y (continued)**  
**PART 2 - SUMMARY OF INSURER’S TRANSACTIONS WITH ANY AFFILIATES**

1	2	3	4	5	6	7	8	9	10	11	12	13
NAIC Company Code	Federal ID Number	Names of Insurers and Parent, Subsidiaries or Affiliates	Shareholder Dividends	Capital Contributions	Purchases, Sales or Exchanges of Loans, Securities, Real Estate, Mortgage Loans or Other Investments	Income/(Disburse- ments) Incurred in Connection with Guarantees or Undertakings for the Benefit of any Affiliate(s)	Management Agreements and Service Contracts	Income/ (Disbursements) Incurred Under Reinsurance Agreements	*	Any Other Material Activity not in the Ordinary Course of the Insurer's Business	Totals	Reinsurance Recoverable/ (Payable) on Losses and/or Reserve Credit Taken/ (Liability)
..... .. 95749 ..	.. 62-1552091 .. .. 62-1546662 ..	PHP Companies, Inc. .... Preferred Health Partnership of Tennesse .....	.....	.....	.....	.....	.. (15,076,925) .. 15,076,925	.....	.....	.....	.. (15,076,925) .. 15,076,925	.....
9999999 Totals .....			.....	.....	.....	.....	.....	.....	X X X	.....	.....	.....

Schedule Y Part 2 Explanation:

# SUPPLEMENTAL EXHIBITS AND SCHEDULES

## INTERROGATORIES

The following supplemental reports are required to be filed as part of your statement filing. However, in the event that your company does not transact the type of business for which the special report must be filed, your response of NO to the specific interrogatory will be accepted in lieu of filing a "NONE" report and a bar code will be printed below. If the supplement is required of your company but is not being filed for whatever reason enter SEE EXPLANATION and provide an explanation following the interrogatory questions.

MARCH FILING

	Response
1. Will the Medicare Supplement Insurance Experience Exhibit be filed with the state of domicile and the NAIC by March 1?	No
2. Will the Supplemental Compensation Exhibit be filed with the state of domicile by March 1?	See Explanation
3. Will an actuarial certification be filed by March 1?	See Explanation
4. Will the Risk-based Capital Report be filed with the NAIC by March 1?	See Explanation
5. Will the Risk-based Capital Report be filed with the state of domicile, if required by March 1?	See Explanation
6. Will the SVO Compliance Certification be filed by March 1?	See Explanation

APRIL FILING

7. Will Management's Discussion and Analysis be filed by April 1?	Yes
8. Will the Long-term Care Experience Reporting Forms be filed with the state of domicile by April 1?	No
9. Will the Investment Risks Interrogatories be filed by April 1?	Yes

JUNE FILING

10. Will an audited financial report be filed by June 1 with the state of domicile?	Yes
---	-----

Explanations:

Delayed - will be filed March 4th  
Delayed - will be filed March 4th  
Delayed - will be filed March 4th  
Delayed - will be filed March 4th  
Delayed - will be filed March 4th

Bar Codes:

Medicare Supplement Insurance Experience Exhibit



957492002360000002002Document Code: 360

LTC Experience Reporting Form C



957492002330000002002Document Code: 330



**OVERFLOW PAGE FOR WRITE-INS**

**LIABILITIES, CAPITAL AND SURPLUS**

	Current Year			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
1704. ....	.....	.....	.....	.....
1797. Summary of remaining write-ins for Line 17 (Lines 1704 through 1796) .....	.....	.....	.....	.....

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 3 - ANALYSIS OF EXPENSES**

		1 Claim Adjustment Expenses	2 General Administrative Expenses	3 Investment Expenses	4 Total
2504.	Education & Seminars .....	3,940	51,672	.....	55,611
2505.	Meals & Entertainment .....	4,308	29,482	.....	33,790
2506.	Office Supplies .....	.....	.....	.....	.....
2507.	Training & Orientation .....	.....	.....	.....	.....
2508.	Wellness Program .....	1,743	3,185	.....	4,928
2509.	Liquidated Damages .....	.....	804,000	.....	804,000
2510.	Books & Subscriptions .....	14,092	22,397	.....	36,490
2511.	Leases & Rentals .....	9,935	136,006	.....	145,941
2512.	Repairs .....	3,100	7,566	.....	10,666
2513.	Temp/Contract Personnel .....	532,678	261,814	.....	794,492
2514.	Miscellaneous Expense .....	1,254	2,825,449	.....	2,826,703
2515.	Corporate Management Fee Revenue .....	.....	.....	.....	.....
2516.	Corporate Management Fee Expense .....	.....	.....	.....	.....
2517.	Covenant Mgmt Fee .....	.....	580,922	.....	580,922
2518.	Covenant MIS Direct Fee .....	.....	765,582	.....	765,582
2519.	Risk Banding Reserve .....	.....	1,789,491	.....	1,789,491
2520.	Provision for Loss Contracts .....	.....	5,547,257	.....	5,547,257
2521.	Utilities .....	.....	53,737	.....	53,737
2522.	Maintenance Agreements .....	7,824	527,716	.....	535,540
2597.	Summary of overflow write-ins for Line 25 .....	578,873	13,406,277	.....	13,985,150

**E01      Schedule A - Part 1 Real Estate Owned - ..... NONE**

**E02      Schedule A - Part 2 Real Estate Aquired - ..... NONE**

**E03      Schedule A - Part 3 Real Estate Sold - ..... NONE**

**E04      Schedule B - Part 1 Mortgage Loans Owned - ..... NONE**

**E05      Schedule B - Part 2 Mortgage Loans Sold - ..... NONE**

**E06      Schedule BA - Part 1 Invested Assets Owned - ..... NONE**

**E07      Schedule BA - Part 2 Invested Assets Sold - ..... NONE**

**SCHEDULE D - PART 1**

**Showing all Long-Term BONDS Owned December 31, of Current Year**

1	2	3	Interest		6	7	8	9	10	11	12	13	Interest		16	17	18	19	20	21
			4	5									14	15						
CUSIP Identification	Description	*	Rate of	How Paid	Maturity Date	Option Date	Option Call Price	Book/ Adjusted Carrying Value	Par Value	Rate Used to Obtain Fair Value	Fair Value	Actual Cost	Amount Due and Accrued Dec. 31 of Current Year on Bonds not in Default	Gross Amount Received During Year	Increase (Decrease) by Adjustment	Increase (Decrease) by Foreign Exchange Adjustment	Amount of Interest Due and Accrued Dec. 31 Current year, on Bonds in Default as to Principal or Interest	NAIC Desig- nation	Date Acquired	Effective Rate of Interest
U.S. Governments - Issuer Obligations																				
665278107	Northern Instl FDS				11/15/2003			4,447,262	4,447,262		4,447,262	4,447,262	4,022	44,915				1Z	01/01/2002	
3134A4CQ5	FHLMC NT		6.375	MN	11/15/2003			3,033,970	3,000,000	104.3750	3,131,250	3,101,910	23,906	191,250	(40,764)			1PE	05/30/2001	
31359MLR2	FNMA NT		3.125	MN	11/15/2003			2,993,290	3,000,000	101.5940	3,047,820	2,983,897	11,719	90,365	8,052			1	11/28/2001	
31339BM25	FHLB MTN		6.780	MS	03/24/2004			2,004,333	2,000,000		2,004,333	2,032,500	36,160	135,600	(3,714)			1PE	06/14/1995	
3133MKEC7	FHLB		4.125	NM	11/15/2004			4,979,856	5,000,000	104.2190	5,210,950	4,970,700	25,781	197,656	9,156			1PE	03/28/2002	
3128X0MJ5	FHLMC PREASSIGN		2.375	DJ	12/13/2004			2,999,102	3,000,000		2,999,102	2,999,063	3,365		39			1PE	12/06/2002	
31359MFH1	FNMA NT		7.125	FA	02/15/2005			5,830,335	5,500,000	110.9060	6,099,830	6,041,750	146,953	391,875	(158,561)			1PE	09/25/2001	
31359MFV0	FNMA PREASSIGN		7.000	MS	07/15/2005			2,386,168	2,250,000	112.1250	2,522,813	2,440,635	72,188	78,750	(54,467)			1PE	01/28/2002	
31359MNY5	FNMA		3.125	FA	08/15/2005			2,568,362	2,570,000	100.8440	2,591,691	2,568,098	30,117		264			1PE	08/08/2002	
3133914Y7	FHLB NT		6.430	MS	09/19/2005			2,216,678	2,200,000		2,216,678	2,260,250	39,687	141,460	(6,250)			1PE	02/13/1996	
3134A0TG7	FHLMC GLOBAL BD		5.950	JJ	01/19/2006			2,863,318	2,905,000	111.0000	3,224,550	2,768,374	77,301	172,848	13,894			1PE	03/15/1996	
31359MHB2	FNMA		5.500	FA	02/15/2006			4,200,967	4,000,000	109.3750	4,375,000	4,233,556	82,500	110,000	(32,589)			1PE	07/17/2002	
31359MHX4	FNMA PREASSIGN		5.500	MN	05/02/2006			2,566,656	2,500,000	108.3440	2,708,600	2,578,320	22,153	68,750	(11,665)			1	06/04/2002	
3134A3EM4	FHLMC NT		5.750	MS	03/15/2009			2,435,870	2,500,000	112.2810	2,807,025	2,404,688	41,927	143,750	10,401			1	06/01/2000	
31359MKF9	FNMA NT		6.250	JJ	07/19/2011			5,036,161	5,000,000	105.7190	5,285,950	5,042,188	139,757	312,500	(4,254)			1PE	08/21/2001	
31359MNU3	FNMA		5.250	AF	08/01/2012			1,516,184	1,500,000	104.4060	1,566,090	1,516,466	8,313		(281)			1	11/21/2002	
880591DR0	TVA NT - Pledged (held 1st TN Bank)		4.750	JJ	07/15/2004			2,249,865	2,250,000	104.5130	2,351,543	2,249,505	53,438	89,063	304			1	12/01/2001	
880591DR0	TVA NT		4.750	JJ	07/15/2004			2,549,695	2,550,000	104.5130	2,665,082	2,549,439	55,516	115,736	192			1	08/01/2001	
0199999 Subtotal - U.S. Governments - Issuer Obligations								56,878,073	56,172,262	X X X	59,255,567	57,188,600	874,801	2,284,517	(270,244)			X X X	X X X	X X X
0399999 Subtotal - U.S. Governments								56,878,073	56,172,262	X X X	59,255,567	57,188,600	874,801	2,284,517	(270,244)			X X X	X X X	X X X
Industrial & Miscellaneous (Unaffiliated) - Issuer Obligations																				
25468PBT2	WALT DISNEY COMPANY NT		4.875	JJ	07/02/2004			1,997,650	2,000,000		1,997,650	1,995,300	48,208	99,396	1,567			2	07/19/2001	
337358DD4	FIRST UNION CORP NT		6.950	NM	11/01/2004			3,050,973	3,000,000	108.5580	3,256,740	3,099,630	34,171	208,500	(27,804)			1	04/24/2001	
073902BZ0	BEAR STEARN COS INC		5.700	JJ	01/15/2007			493,657	500,000	107.9710	539,885	492,335	13,063	14,250	1,322			1	03/25/2002	
030955AL2	AMERITEC CAPITAL FUNDING		6.150	JJ	01/15/2008			996,999	1,000,000	109.9630	1,099,630	994,090	28,188	61,500	601			1PE	03/03/1998	
233835AP2	DAIMLER CHRYSLER		7.750	JJ	01/18/2011			1,583,271	1,500,000	114.2400	1,713,600	1,590,210	52,313	58,125	(6,939)			2	05/15/2002	
758940AF7	REGIONS FINANCIAL CORP N		7.000	MS	03/01/2011			2,511,397	2,500,000	114.5950	2,864,875	2,513,850	57,847	175,000	(1,397)			1PE	04/25/2001	
110122AG3	BRISTOL MYERS SQUIBB		5.750	OA	10/01/2011			985,567	1,000,000	106.4850	1,064,850	984,330	14,215	28,750	1,237			1PE	04/24/2002	
50075NAH7	KRAFT FOODS INC		6.250	JD	06/01/2012			1,999,253	2,000,000	111.8270	2,236,540	1,999,200	10,069	66,319	53			1	05/15/2002	
3999999 Subtotal - Industrial & Miscellaneous (Unaffiliated) - Issuer Obligations								13,618,766	13,500,000	X X X	14,773,770	13,668,945	258,074	711,840	(31,360)			X X X	X X X	X X X
4599999 Subtotal - Industrial & Miscellaneous (Unaffiliated)								13,618,766	13,500,000	X X X	14,773,770	13,668,945	258,074	711,840	(31,360)			X X X	X X X	X X X
5499999 Subtotals - Issuer Obligations								70,496,839	69,672,262	X X X	74,029,337	70,857,545	1,132,875	2,996,358	(301,604)			X X X	X X X	X X X
6099999 Grand Total - Bonds								70,496,839	69,672,262	X X X	74,029,337	70,857,545	1,132,875	2,996,358	(301,604)			X X X	X X X	X X X

**E09      Schedule D - Part 2 Sn 1 Prfrd Stocks Owned -..... NONE**

**E10      Schedule D - Part 2 Sn 2 Common Stocks Owned - ..... NONE**

**SCHEDULE D - PART 3**  
**Showing All Long-Term Bonds and Stocks ACQUIRED During Current Year**

1	2	3	4	5	6	7	8
CUSIP Identification	Description	Date Acquired	Name of Vendor	Number of Shares of Stock	Actual Cost	Par Value	Paid for Accrued Interest and Dividends
<b>Bonds - U.S. Governments</b>							
3133MKEC7 .....	FHLB .....	03/28/2002 ..	THE NORTHERN TRUST COMPANY .....	X X X .....	4,970,700 .....	5,000,000.00 .....	67,604 .....
3128XOMJ5 .....	FHLMC PREASSIGN .....	12/06/2002 ..	THE NORTHERN TRUST COMPANY .....	X X X .....	2,999,063 .....	3,000,000.00 .....	.....
31359MFV0 .....	FHLMC PREASSIGN .....	01/28/2002 ..	THE NORTHERN TRUST COMPANY .....	X X X .....	2,440,635 .....	2,250,000.00 .....	5,688 .....
31359MNY5 .....	FNMA .....	08/08/2002 ..	THE NORTHERN TRUST COMPANY .....	X X X .....	2,568,098 .....	2,570,000.00 .....	.....
31359MHB2 .....	FNMA .....	07/17/2002 ..	THE NORTHERN TRUST COMPANY .....	X X X .....	4,233,556 .....	4,000,000.00 .....	93,500 .....
31359MHX4 .....	FNMA PREASSIGN .....	06/04/2002 ..	THE NORTHERN TRUST COMPANY .....	X X X .....	2,578,320 .....	2,500,000.00 .....	12,604 .....
31359MNU3 .....	FNMA .....	11/21/2002 ..	THE NORTHERN TRUST COMPANY .....	X X X .....	1,516,466 .....	1,500,000.00 .....	25,375 .....
665278107 .....	NORTHERN INSTL FDS .....	12/15/2002 ..	THE NORTHERN TRUST COMPANY .....	X X X .....	2,251,850 .....	2,251,850.21 .....	.....
0399999 Subtotal - Bonds - U.S. Governments .....					23,558,687 .....	23,071,850.21 .....	204,771 .....
<b>Bonds - Industrial and Miscellaneous (Unaffiliated)</b>							
073902BZ0 .....	BEAR STEARNS COS INC .....	03/25/2002 ..	THE NORTHERN TRUST COMPANY .....	X X X .....	492,335 .....	500,000.00 .....	5,542 .....
233835AP2 .....	DAIMLER CHRYSLER .....	05/15/2002 ..	THE NORTHERN TRUST COMPANY .....	X X X .....	1,590,210 .....	1,500,000.00 .....	39,396 .....
110122AG3 .....	BRISTOL MYERS SQUIBB .....	04/24/2002 ..	THE NORTHERN TRUST COMPANY .....	X X X .....	984,330 .....	1,000,000.00 .....	4,472 .....
50075NAH7 .....	KRAFT FOODS INC .....	05/15/2002 ..	THE NORTHERN TRUST COMPANY .....	X X X .....	1,999,200 .....	2,000,000.00 .....	.....
4599999 Subtotal - Bonds - Industrial and Miscellaneous (Unaffiliated) .....					5,066,075 .....	5,000,000.00 .....	49,410 .....
6099997 Subtotal - Bonds - Part 3 .....					28,624,762 .....	28,071,850.21 .....	254,181 .....
6099998 Summary item from Part 5 for Bonds .....					3,213,220 .....	3,000,000.00 .....	6,491 .....
6099999 Subtotal - Bonds .....					31,837,982 .....	31,071,850.21 .....	260,672 .....
6599998 Summary Item from Part 5 for Preferred Stocks .....					.....	X X X .....	.....
7099998 Summary Item from Part 5 for Common Stocks .....					.....	X X X .....	.....
7199999 Subtotal - Preferred and Common Stocks .....					.....	X X X .....	.....
7299999 Totals .....					31,837,982 .....	X X X .....	260,672 .....

**SCHEDULE D - PART 4**

**Showing All Long-Term Bonds and Stocks SOLD, REDEEMED, or Otherwise DISPOSED OF During Current Year**

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
CUSIP Identification	Description	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Book/Adjusted Carrying Value at Disposal Date	Increase (Decrease) by Adjustment	Increase (Decrease) by Foreign Exchange Adjustment	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Interest on Bonds Received During Year	Dividends on Stocks Received During Year
<b>Bonds - U.S. Governments</b>															
31364K7D6	FNMA NT .....	03/02/2002	THE NORTHERN TRUST CO .....	X X X .....	5,000,000	5,000,000.00	5,000,000	5,000,000						137,500	X X X .....
3134A3EM4	FHLMC NT .....	03/20/2002	THE NORTHERN TRUST CO .....	X X X .....	2,001,641	2,000,000.00	1,960,937	1,972,193	662			29,448	29,448	60,694	X X X .....
9128277B2	US TREAS NT .....	03/25/2002	THE NORTHERN TRUST CO .....	X X X .....	486,406	500,000.00	497,734	497,793	39			(11,387)	(11,387)	14,710	X X X .....
3134A4EW0	FHLMC NT .....	06/28/2002	THE NORTHERN TRUST CO .....	X X X .....	2,510,254	2,500,000.00	2,500,350	2,500,306	(15)			9,948	9,948	103,628	X X X .....
3134A4HF4	FHLMC NT .....	06/27/2002	THE NORTHERN TRUST CO .....	X X X .....	6,072,000	6,000,000.00	6,046,638	6,043,871	(1,976)			28,129	28,129	246,583	X X X .....
3133MD6L2	FHLB NT .....	06/25/2002	THE NORTHERN TRUST CO .....	X X X .....	7,288,050	7,000,000.00	7,052,150	7,038,892	(4,420)			249,159	249,159	322,948	X X X .....
31359MEV1	FNMA NT .....	07/24/2002	THE NORTHERN TRUST CO .....	X X X .....	2,889,770	2,600,000.00	2,594,719	2,596,347	264			293,423	293,423	98,364	X X X .....
3133M2UD7	FHLB NT .....	12/23/2002	THE NORTHERN TRUST CO .....	X X X .....	2,100,000	2,100,000.00	2,119,031	2,100,000	(4,026)			0	0	124,005	X X X .....
0399999 Subtotal - Bonds - U.S. Governments .....					28,348,121	27,700,000.00	27,771,560	27,749,402	(9,471)			598,719	598,719	1,108,433	X X X .....
<b>Bonds - Industrial and Miscellaneous (Unaffiliated)</b>															
05943FAM7	BANC ONE CORP MTN .....	05/20/2002	THE NORTHERN TRUST CO .....	X X X .....	2,030,680	2,000,000.00	2,005,180	2,000,439	(351)			30,241	30,241	81,104	X X X .....
030955AL2	AMERITEC CAPITAL FUNDING .....	06/21/2002	THE NORTHERN TRUST CO .....	X X X .....	4,165,280	4,000,000.00	3,976,360	3,986,577	1,002			178,703	178,703	212,517	X X X .....
4599999 Subtotal - Bonds - Industrial and Miscellaneous (Unaffiliated) .....					6,195,960	6,000,000.00	5,981,540	5,987,016	651			208,944	208,944	293,621	X X X .....
6099997 Subtotal - Bonds - Part 4 .....					34,544,081	33,700,000.00	33,753,100	33,736,418	(8,820)			807,663	807,663	1,402,054	X X X .....
6099998 Summary Item from Part 5 for Bonds .....					3,313,445	3,000,000.00	3,213,220	3,210,721	(2,500)			102,724	102,724	38,118	X X X .....
6099999 Subtotal - Bonds .....					37,857,526	36,700,000.00	36,966,320	36,947,139	(11,320)			910,387	910,387	1,440,172	X X X .....
6599998 Summary Item from Part 5 for Preferred Stocks .....							X X X .....							X X X .....	
7099998 Summary Item from Part 5 for Common Stocks .....							X X X .....							X X X .....	
7199999 Subtotal - Preferred and Common Stocks .....							X X X .....							X X X .....	
7299999 Totals .....					37,857,526		X X X .....	36,966,320	36,947,139	(11,320)		910,387	910,387	1,440,172	

**SCHEDULE D - PART 5**

**Showing All Long-Term Bonds and Stocks ACQUIRED During Year and Fully DISPOSED OF During Current Year**

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
CUSIP Identifi- cation	Description	Date Acquired	Name of Vendor	Disposal Date	Name of Purchaser	Par Value (Bonds) or Number of Shares (Stocks)	Actual Cost	Consider- ation	Book/Adjusted Carrying Value at Disposal Date	Increase (Decrease) by Adjustment	Increase (Decrease) by Foreign Exchange Adjustment	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Interest and Dividends Received During Year	Paid For Accrued Interest and Dividends
<b>Bonds - U.S. Governments</b>																
31359MEV1	FNMA NT .....	06/27/2002	THE NORTHERN TRUST CO .	07/24/2002	THE NORTHERN TRUST CO .	..... 2,500,000.000	..... 2,714,245	... 2,778,625	..... 2,711,694	..... (2,551)	.....	.....	..... 66,931	..... 66,931	..... 20,636	..... 5,755
0399999	Subtotal - Bonds - U.S. Governments .....					..... 2,500,000.000	..... 2,714,245	... 2,778,625	..... 2,711,694	..... (2,551)	.....	.....	..... 66,931	..... 66,931	..... 20,636	..... 5,755
<b>Bonds - Industrial and Miscellaneous</b>																
46625HAN0	JP MORGAN CHASE & CO .....	03/21/2002	THE NORTHERN TRUST CO .	09/18/2002	THE NORTHERN TRUST CO .	..... 500,000.000	..... 498,975	..... 534,820	..... 499,026	..... 51	.....	.....	..... 35,794	..... 35,794	..... 17,482	..... 736
4599999	Subtotal - Bonds - Industrial and Miscellaneous .....					..... 500,000.000	..... 498,975	..... 534,820	..... 499,026	..... 51	.....	.....	..... 35,794	..... 35,794	..... 17,482	..... 736
6099998	Subtotal - Bonds .....					..... 3,000,000.000	..... 3,213,220	... 3,313,445	..... 3,210,721	..... (2,500)	.....	.....	..... 102,724	..... 102,724	..... 38,118	..... 6,491
7299999	Totals .....						..... 3,213,220	... 3,313,445	..... 3,210,721	..... (2,500)	.....	.....	..... 102,724	..... 102,724	..... 38,118	..... 6,491

E14	Schedule D - Part 6 Sn 1 - .....	NONE
E14	Schedule D - Part 6 Sn 2 - .....	NONE
E15	Schedule DA - Part 1 ST Investments Owned - .....	NONE
E16	Schedule DB - Part A Sn 1 Opt/Cap/Floor Owned - .....	NONE
E16	Schedule DB - Part A Sn 2 Opt/Cap/Floor Aquired - .....	NONE
E17	Schedule DB - Part A Sn 3 Opt/Cap/Floor Term - .....	NONE
E17	Schedule DB - Part B Sn 1 Opt/Cap/Floor In-force - .....	NONE
E18	Schedule DB - Part B Sn 2 Opt/Cap/Floor Written - .....	NONE
E18	Schedule DB - Part B Sn 3 Opt/Cap/Floor Term - .....	NONE
E19	Schedule DB - Part C Sn 1 Col/Swap/Frwr Open - .....	NONE
E19	Schedule DB - Part C Sn 2 Col/Swap/Frwr Opened - .....	NONE
E20	Schedule DB - Part C Sn 3 Col/Swap/Frwr Term - .....	NONE
E20	Schedule DB - Part D Sn 1 Futures Contracts Open - .....	NONE
E21	Schedule DB - Part D Sn 2 Futures Contracts Opened - .....	NONE
E21	Schedule DB - Part D Sn 3 Futures Contracts Term - .....	NONE
E22	Schedule DB - Part E Sn 1 Counterparty Exposure - .....	NONE



**SCHEDULE DM**

**For bonds and preferred stocks owned as of December 31, state the aggregate statement (admitted) value, the aggregate fair value, and the aggregate difference, if any, between them.**

	1	2	3
	Statement (Admitted) Value	Fair Value (a)	Excess of Statement over Fair Value (-), or Fair Value over Statement (+)
1. Bonds .....	70,496,671	74,029,337	3,532,666
2. Preferred Stocks .....			
3. TOTALS .....	70,496,671	74,029,337	3,532,666

(a) Amortized or book values shall not be substituted for fair values. Describe the sources or methods utilized in determining the fair values.:

SCHEDULE E - PART 1 - CASH

1			2	3	4	5	6
Depository			Rate of Interest	Amount of Interest Received During Year	Amount of Interest Accrued December 31 of Current Year	Balance	*
<b>open depositories</b>							
Cash on Deposit .....	First Tennessee Bank .....			120,664		3,776,349	.
Cash Equivalent Investment .....	Northern Trust Co. ....			8,747			.
0199998 Deposits in ..... depositories that do not exceed the allowable limit in any one depository (See Instructions) - open depositories .....			X X X				xxx
0199999 Totals - Open Depositories .....			X X X	129,411		3,776,349	xxx
0299998 Deposits in ..... depositories that do not exceed the allowable limit in any one depository (See Instructions) - suspended depositories .....			X X X				xxx
0299999 Totals - Suspended Depositories .....			X X X				xxx
0399999 Total Cash On Deposit .....			X X X	129,411		3,776,349	xxx
0499999 Cash in Company's Office .....			X X X	X X X	X X X		xxx
0599999 Total Cash .....			X X X	129,411		3,776,349	xxx

TOTALS OF DEPOSITORY BALANCES ON THE LAST DAY OF EACH MONTH DURING THE CURRENT YEAR

1. January .....	3,898,417	4. April .....	1,573,256	7. July .....	15,496,223	10. October .....	10,713,417
2. February .....	3,254,817	5. May .....	(534,942)	8. August .....	9,516,880	11. November .....	1,433,340
3. March .....	1,958,942	6. June .....	7,348,560	9. September .....	12,954,979	12. December .....	3,776,349

**SCHEDULE E - PART 2 - SPECIAL DEPOSITS**

1 Line Number	2  Type	3  Description of Deposit	4  Where Deposited and Purpose of Deposit	5  Par or Book Value	6  Statement Value (a)	7  Fair Value
<b>Tennessee</b> TN00001	B .....	TVA NT - CUSIP #880591DR0 Maturity Date 7/15/04 Value \$2,250,000 .....	First Tennessee Bank - Restricted Investment - for protection of the enrollees in the State of TN .....	2,250,000	2,249,697	
TN99999	Subtotals - Tennessee .....			2,250,000	2,249,697	
XX99999	Subtotals - Special Deposits Not Held for the Benefit Of All Policyholders, Claimants and Creditors of the Company .....			2,250,000	2,249,697	
9999999	Totals .....			2,250,000	2,249,697	

(a) Including \$..... cash and short-term investments as defined in SSAP No.2 of the NAIC Accounting Practices and Procedures Manual.

**LONG-TERM CARE EXPERIENCE REPORTING FORM-A**

		3	4	5	6	7	8	9
1.	Individual .....	<b>N O N E</b>		.....	.....	..... XXX .....	..... XXX .....	..... XXX .....
2.	Group Direct Response .....			.....	.....	..... XXX .....	..... XXX .....	..... XXX .....
3.	Other Group .....			.....	.....	..... XXX .....	..... XXX .....	..... XXX .....
4.	TOTAL (Sum of Lines 1 to 3) .....			.....	.....	..... XXX .....	..... XXX .....	..... XXX .....

**LONG-TERM CARE EXPERIENCE REPORTING FORM-B**

	3	4	5	6	7	8
1. Individual .....			... X X X ...	... X X X ...	... X X X ...	... X X X ...
2. Group direct response .....			... X X X ...	... X X X ...	... X X X ...	... X X X ...
3. Other group .....			... X X X ...	... X X X ...	... X X X ...	... X X X ...
4. Total (Sum of Lines 1 to 3) .....			... X X X ...	... X X X ...	... X X X ...	... X X X ...
5. Actual total reported experience through statement year .....			... X X X ...	... X X X ...	... X X X ...	... X X X ...
6. Actual total reported experience through prior year .....			... X X X ...	... X X X ...	... X X X ...	... X X X ...
7. Calendar year reported experience (Lines 5 minus 6) .....			... X X X ...	... X X X ...	... X X X ...	... X X X ...

NONE

Note: a. Was experience prior to 1991 used in preparing this form? Yes[ ] No[X]  
b. If yes, indicate the calendar years that were included:



## **Management's Discussion and Analysis**

### **Statement as of December 31, 2002 of the Preferred Health Partnership of Tennessee, Inc. (PHP of Tennessee)**

#### **Supplement of the Annual Statement - Management's Discussion & Analysis**

Preferred Health Partnership of Tennessee, Inc. (the Company) was organized in 1994 as a wholly-owned subsidiary of PHP Companies, Inc. (the Parent). The Company was a fully funded at risk managed care organization under contractual agreement with the State of Tennessee from January 2002 to June 2002. During this period, TennCare paid the Company a monthly capitation amount based on the number of enrollees in the company's managed care plan. The Company used the capitation payments to pay for services provided to the enrollees and all administrative costs incurred to provide such services. In July 2002, PHP entered into an ASO non-risk contractual agreement with the State of Tennessee, which spans from July 2002 to December 2003. As under the risk managed plan, the TennCare program provides or arranges for the provision of health care services to members. TennCare pays the Company a monthly administration fee based on the number of enrolled members in the plan. The Company uses these fees to pay for all administration costs incurred to provide medical services. The State is directly responsible for payments of services.

In July 2000, PHP entered into a risk sharing arrangement with the State of Tennessee. PHPT and the State share equally any medical losses between 87% and 97% of premium. During 2001 and 2002, the State is 90% responsible for medical expenses exceeding 97%.

#### **FINANCIAL POSITION:**

The financial position of PHP of Tennessee for the year ended December 31, 2002 indicated an operating loss of \$352,910. The Company's statutory basis assets decreased from \$90,186,766 in 2001 to \$80,319,729 in 2002. Three significant changes in assets include a decrease in investment activity in Long-Term Bonds and a decrease in the Risk-Share Receivable, which were offset by an increase in Premiums Receivable. Bonds decreased from \$75,918,920 in 2001 to \$70,496,839 in 2002 and the Risk Share Receivable decreased from \$8,074,300 in 2001 to \$2,370,412 in 2002, while Premiums Receivable from the State increased from \$939,845 in 2001 to \$2,518,183 in 2002. The cash balance at December 2002 and 2001 was accumulated through the normal course of operations and is unencumbered and available for use in the health plan's operations.

Balances listed as due from affiliates are amounts owed to the company in the normal course of business from affiliated entities. All balances are listed at their net realizable value and have been subsequently received.

Total liabilities decreased from \$71,904,218 in 2001 to \$62,390,090 in 2002. Policy Claims Payable and Reserve for Transplants decreased, while General Expenses due or accrued, Aggregate Policy Reserves, Accrued Run-Out Costs, and Amounts due to affiliate increased. Policy Claims Payable decreased from \$30,879,480 in 2001 to \$3,116,777 in 2002 and Reserve for Transplants decreased from \$3,064,000 in 2001 to zero in 2002. These decreases are directly correlated with the new non-risk contract agreement that the Company has entered with the State of Tennessee. General Expenses due or accrued increased from \$11,153,287 in 2001 to \$13,746,682 in 2002. Policy Reserves increased from \$5,279,384 in 2001 to \$10,826,641 in 2002 and Accrued Run-Out Costs increased from \$7,690,756 in 2001 to \$14,082,990 in 2002. Amounts due to affiliate increased from \$13,837,311 to \$20,617,000. The majority of the affiliate payable is for general and administrative expenses previously paid by the parent company, PHP Companies, Inc. on behalf of the plan.

#### **RESULTS OF OPERATIONS:**

Member-months reported in 2002 totaled 1,411,276, compared to 1,314,549 member-months reported in 2001. This increase is attributable to the reassignment of members from other MCO's in the TennCare Program and the company's decision to focus on its current enrollment in the East Tennessee area. Member-months for the non-risk period totaled 727,368, which leaves 683,908 for the Risk period.

Total Revenue reported for 2002 was \$109,964,306 as compared to reported 2001 revenue of \$204,781,359. Total Medical and Hospital Expenses decreased from \$188,217,010 in 2001 to \$84,622,772 in 2001. These decreases directly correlate to the new non-risk contract with the State. Total Claims Adjustment Expenses

## Management’s Discussion and Analysis

decreased from \$5,335,642 in 2001 to \$5,273,180 in 2002, while General Administrative Expenses increased from \$19,930,506 in 2001 to \$25,094,419 in 2002. The decrease in Claims Adjustment Expenses also correlates to the new contract with the State. General Administrative Expenses for the risk period totaled \$12,640,481, while General Administrative Expenses for the non-risk period totaled \$17,727,118. The main increase in General Administrative Expenses was during the non-risk period and was due to increases in the Provision for Loss Contracts and Program Run Out expenses. The company has a management agreement with the parent company, PHP Companies, Inc., to provide management, administrative, marketing and certain clerical functions subject to the review of the Company’s Board of Directors.

### Key Indicators for PHP of Tennessee, Inc. - Risk for PHP of Tennessee

	2002 Actual	2001Actual	2000 Actual	1999 Actual	1998 Actual
Membership	683,908	1,314,549	1,078,839	967,006	1,121,501
Rev - Med Title XIX	\$109,964,306	\$204,781,359	\$155,605,556	\$128,906,583	\$131,739,823
Average Cap PMPM	\$160.79	\$155.78	\$144.10	\$133.30	\$117.47
Admin - % of Prem	11.50%	12.34%	12.36%	13.45%	17.93

### CASH FLOW AND LIQUIDITY:

PHP of Tennessee believes that cash flow and liquidity were adversely affected by the members who were retroactively enrolled in the Medicaid population.

**MEDICARE SUPPLEMENT INSURANCE EXPERIENCE EXHIBIT  
FOR THE STATE OF TENNESSEE**



NAIC Group Code: 1253

NAIC Company Code: 95749

Address (City, State and Zip Code): Knoxville , TN 37932

Person Completing This Exhibit:

Title:

Telephone:

1	2	3	4	5	6	7	8	9	10	Policies Issued Through 1999				Policies Issued in 2000, 2001, 2002			
										11	Incurred Claims		14	15	Incurred Claims		18
											12	13			16	17	
Compliance with OBRA	Policy Form Number	Standardized Medicare Supplement Benefit Plan	Medicare Select	Plan Characteristics	Date Approved	Date Approval Withdrawn	Date Last Amended	Date Closed	Policy Marketing Trade Name	Premiums Earned	Amount	Percent of Premiums Earned	Number of Covered Lives	Premiums Earned	Amount	Percent of Premiums Earned	Number of Covered Lives
0299999 Total Experience on Group Policies .....																	

NONE

GENERAL INTERROGATORIES

1. If response in Column 1 is no, give full and complete details:
2. Claims address and contact person provided to the Secretary of Health and Human Services as required by 42 U.S.C. 1395ss(c)(3)(E) for this state.
- 2.1 Address:
- 2.2 Contact Person and Phone Number:
3. Billing address and contact person for user fees established under 42 U.S.C. 1395u(h)(3)(B)
- 3.1 Address:
- 3.2 Contact Person and Phone Number:
4. Explain any policies identified above as policy type "O":

MS Tennessee





**SUPPLEMENTAL COMPENSATION EXHIBIT**  
**(To be filed by March 1)**

**PART 1 - INTERROGATORIES**

1. The reporting insurer is a member of a group of insurers or other holding company system:  
If yes, do the below amounts represent 1) total gross compensation paid to each individual by or on behalf of all companies which are part of the group:  
or 2) allocation to each insurer:

Yes[X] No[ ]  
Yes[X] No[ ]  
Yes[ ] No[X]
2. Did any person while an officer, director, or trustee of the reporting entity receive directly or indirectly, during the period covered by this statement any commission on the business transactions of the reporting entity?

Yes[ ] No[X]
3. Except for retirement plans generally applicable to its staff employees, has the reporting entity any agreement with any person, other than contracts with its agents for the payment of commissions whereby it agrees that for any service rendered or to be rendered, that he/she shall receive directly or indirectly, any salary, compensation or emolument that will extend beyond a period of 12 months from the date of the agreement?

Yes[ ] No[X]

**PART 2 - OFFICERS AND EMPLOYEES COMPENSATION**

1  Name and Principal Position	2  Year	Annual Compensation			
		3  Salary	4  Bonus	5  All Other Compensation	6  Totals
1. This information will be sent under separate cover. ....	2002 .				
.....	2001 .				
.....	2000 .				
2. ....	2002 .				
.....	2001 .				
.....	2000 .				
3. ....	2002 .				
.....	2001 .				
.....	2000 .				
4. ....	2002 .				
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8. ....	2002 .				
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.....	2000 .				
9. ....	2002 .				
.....	2001 .				
.....	2000 .				
10. ....	2002 .				
.....	2001 .				
.....	2000 .				

**PART 3 - DIRECTOR COMPENSATION**

1  Name of Principal Position or Occupation	2  Compensation Paid or Deferred for Services as Director	3  All Other Compensation Paid or Deferred	4  Totals
This information will be sent under separate cover. ....			
9999999 .....			



**SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES**  
**Due April 1**

For the year ended December 31, 2002

Of The Preferred Health Partnership of Tennessee, Inc.  
Address (City, State, Zip Code) Knoxville , TN, 37932  
NAIC Group Code 1253 NAIC Company Code 95749 Employer's ID Number 62-1546662

The Investment Risk Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.  
Answer the following interrogatories by stating the applicable U. S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments as shown on the Summary Investment Schedule. All reporting entities must answer interrogatories 1, 2, 3, 4, 11 and, if applicable 20 through 24. Answer each of interrogatories 5 through 19 (except 11) only if the reporting entity's aggregate holding in the gross investment category addressed in that interrogatory equals or exceeds 2.5% of the reporting entity's total admitted assets. For Life, Health and Fraternal blanks, responses are to exclude Separate Accounts. For Property Casualty blank, responses are to exclude Protected Cell Accounts.

1. State the reporting entity's total admitted assets as reported on Page 2 of this annual statement. \$..... 80,319,729

1	2	3
Investment Category	Amount	Percentage of Total Admitted Assets
2. State by investment category the 10 largest exposures to a single issuer/borrower/investment, excluding U.S. government, U.S. government agency securities and those U.S. Government money market funds listed in the Appendix to the SVO Purposes and Procedures Manual as exempt, property occupied by the company and policy loans.		
2.01 Industrial and Miscellaneous (Unaffiliated) - Issuer Obligations .....	13,618,766	16.956
2.02 .....		
2.03 .....		
2.04 .....		
2.05 .....		
2.06 .....		
2.07 .....		
2.08 .....		
2.09 .....		
2.10 .....		

NAIC Rating	1 Amount	2 Percent
3. State the amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.		
<b>Bonds</b>		
3.01 NAIC-1 .....	66,915,750	83.312
3.02 NAIC-2 .....	3,580,921	4.458
3.03 NAIC-3 .....		
3.04 NAIC-4 .....		
3.05 NAIC-5 .....		
3.06 NAIC-6 .....		
<b>Preferred Stocks</b>		
3.07 P/RP-1 .....		
3.08 P/RP-2 .....		
3.09 P/RP-3 .....		
3.10 P/RP-4 .....		
3.11 P/RP-5 .....		
3.12 P/RP-6 .....		

Description	1 Amount	2 Percent
4. State the amounts and percentages of the reporting entity's total admitted assets held in foreign investments (regardless of whether there is any foreign currency exposure) and unhedged foreign currency exposure (defined as the statement value of investments denominated in foreign currencies which are not hedged by financial instruments qualifying for hedge accounting as specified in SSAP No. 31 - Derivative Instruments), including:		
4.01 Foreign-currency-denominated investments of .....		
4.02 Supporting insurance liabilities denominated in that same foreign currency of .....		
4.03 Excluding Canadian investments and currency exposure of .....		
4.04 Assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatories 5 - 10 .....	... Yes[ ] No[X] ...	

**SIR-2      Supp. Inv. Risk Interr. Pt B - ..... NONE**

**SIR-3      Supp. Inv. Risk Interr. Pt C - ..... NONE**

**SIR-4      Supp. Inv. Risk Interr. Pt D - ..... NONE**

**SIR-5      Supp. Inv. Risk Interr. Pt E - ..... NONE**

**SIR-6      Supp. Inv. Risk Interr. Pt F - ..... NONE**



# SVO Compliance Certification

"The undersigned is an officer of the insurer responsible for reporting investments to the SVO and/or with performing all filings with appropriate state regulatory officials and the NAIC and is therefore required to be familiar with the requirements of such filings. The undersigned officer certifies that, to the best of his or her knowledge, information, and belief, all prices or NAIC designations for the securities reported in this statement have been obtained directly from the SVO except as specifically identified below. The officer further certifies that, to the best of his or her knowledge, information, and belief, since the last filing of a quarterly or annual statement:

- 1. All securities previously valued by the insurer and identified by a Z suffix have now been submitted to the SVO for a valuation or disposed of by sale or otherwise with the result that all prices and NAIC Designations reported in this statement have been provided by the SVO, except for new purchases identified in Schedule D and DA with a Z suffix or items submitted but not yet processed by the SVO.
- 2. Any newly purchased securities now identified with a Z suffix shall be submitted to the SVO within 120 days of purchase.
- 3. All necessary information on securities which have been previously designated NR (not rated due to lack of current information) by the SVO have either been submitted to the SVO by the insurer for a valuation or disposed of by the insurer.
- 4. All material issuer events (as defined below) have been reported to the SVO."

A material issuer event is a generic or transaction specific credit event of which the insurer is currently aware, which by its nature would signify to a reasonably prudent insurer that a material change in the credit quality or price of the investment or security has occurred.

As an illustration, and not by way of limitation, the following shall be deemed to constitute material issuer events:

- a. Recapitalizations or capital restructuring whether within or without Chapter 11 of the US Bankruptcy Code;
- b. Nonpayment, deferral, or payment in kind through waiver of any principal or contractual interest payment;
- c. Any change in the maturity of a security;
- d. Changes in the lender's collateral position, including releases of collateral, or the taking of a collateral position whether by operation of negative pledge covenant or otherwise;
- e. Events of a like character or of a like effect, which would be considered material to an investment professional.
- f. Exceptions\_\_\_\_\_

Lance K. Hunsinger  
Name of Investment Officer

\_\_\_\_\_  
Signature of Investment Officer

President and Chief Financial Officer  
Title of Signatory

\_\_\_\_\_  
Date



# Statement of Actuarial Opinion



# Audited Financial Report

This will be sent under separate cover by the due date.

**Amended Statement Cover**

**ANNUAL STATEMENT AMENDMENT**

**OF THE**

**Preferred Health Partnership of Tennessee, Inc.**

**of**

**Knoxville**

**in the state of**

**Tennessee**

**TO THE**

**Insurance Department**

**OF THE STATE OF**

**Tennessee**

**FOR THE YEAR ENDED  
DECEMBER 31, 2002**

**Amendment made to correct the following pages: Actuarial Opinion, Assets, Liabilities, Statement of Revenue, Report 2A, Cash Flow, Analysis of Operations by Lines of Business, Underwriting and Investment Exhibits, Summary of Transactions with Providers, Five-Year Historical Data, Exhibit of Premiums, Verification Between Years, Schedule S, Overflow Page for Write-Ins, Schedule D - Part 1, Management's Discussion and Analysis, MLR to Annual Report, SVO Certification, and Affidavit of Filing**

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ANNUAL DISKETTE TRANSMITTAL FORM AND CERTIFICATION  
(HEALTH)

Name of Insurer Preferred Health Partnership of Tennessee, Inc.

Date 1253 NAIC Group # 62-1546662 FEIN 95749 NAIC Company #

THIS FORM IS REQUIRED FOR ALL DISKETTE TRANSMITTALS, PLEASE PROVIDE ANY ADDITIONAL COMMENTS THAT MAY  
HELP TO IDENTIFY DISKETTE CONTENT

	March	April	June
1. Is this the first time you've submitted this filing? (Y/N) .....	N/A .....	N/A .....	N/A .....
2. Is this being re-filed at the request of the NAIC or a state insurance department? (Y/N) .....	N/A .....	N/A .....	N/A .....
3. Is this being re-filed due to changes to the data originally filed? (Y/N) .....	N/A .....	N/A .....	N/A .....
(IF "YES" ENCLOSE HARD COPY PAGES FOR EACH CHANGE.)			
4. Other? (Y/N) .....	N/A .....	N/A .....	N/A .....
(If "yes" attach an explanation.)			

B. Additional comments if necessary for clarification:

C. Diskette Contact Person:  
Phone:  
Address:

D. Software Vendor:  
Version:

E. Have material validation failures been addressed in the explanation file? Yes[ ] No[X]

F. The undersigned hereby certifies that, according to the best of his/her knowledge and belief, that the diskettes submitted with this form were prepared in compliance with the NAIC specifications, that the diskettes have been tested against the validations included with these specifications, and that annual statement information required to be contained on diskette is identical to the information in the 2002 Annual Statement blank filed with the insurer's domiciliary state insurance department. In addition, the diskettes have been scanned through a virus detection software package, and no viruses are present on the diskettes. The virus detection software used was (name):

(version number):  
  
(Signed) \_\_\_\_\_  
  
Type Name and Title:

NAIC Company Code 95749  
NAIC Group Code 1253



Reporting Entity Name Preferred Health Partnership of Tennessee, Inc.  
Domiciled in Tennessee (State)  
Mailing Address: 1420 Centerpoint Blvd., Knoxville, TN 37932  
Annual Statement Contact: Melissa R Anderson (865)670-7282 manders1@covhlth.com  
(Name) Telephone No. E-mail Address

In the Matter of the Annual Statement  
(Annual/Quarterly)

Filing Required for the Period Ending on the  
31st day of December, 2002  
Mailing Date: 07/28/2003

} AFFIDAVIT OF FILING  
AND FINANCIAL  
STATEMENT ATTESTATION

The officers of the above identified reporting entity, being duly sworn, each depose and say that on the mailing date above, a true and correct statement for the reporting period stated above and that the corresponding true and correct electronic file reflecting the statement for the above named reporting entity, has been sent to the National Association of Insurance Commissioners, according to their instructions. The statement and the corresponding electronic file are an exact and complete duplicate of the statement filed with the reporting entity’s domestic state, except as to schedules, exhibits and information required to be submitted only to the reporting entity’s domestic state.

Additionally, the officers of the above identified reporting entity, being duly sworn, each depose and say that they are the described officers of the said reporting entity, and that for the reporting period stated above, all of the described assets in the above referenced statement were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as therein stated, and that the statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended on that date, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual, except to the extent that (1) state law may differ; or (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively.

(Signature)  
Lance K. Hunsinger  
(Printed Name)  
Chief Financial Officer

(Signature)  
Lance K. Hunsinger  
(Printed Name)  
President

(Signature)  
Jeffery S. Collake  
(Printed Name)  
Secretary

(Signature)  
(Printed Name)  
Melissa Anderson

Subscribed and sworn to before me this  
day of , 2003

(Notary Signature)  
My Commission Expires: